FitchRatings

Banks
Retail & Consumer Banks
Netherlands

de Volksbank N.V.

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating	a-
Government Support Rating	ns

Sovereign Risk

Long-Term Foreign- and Local-Currency IDRs	AAA
Country Ceiling	AAA

Outlooks

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

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Western European Banks Outlook 2023 (December 2022)

Global Economic Outlook (December 2022)

Fitch Affirms de Volksbank at 'A-'; Outlook Stable (November 2022)

Fitch Affirms Netherlands at 'AAA'; Outlook Stable (September 2022)

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Key Rating Drivers

Standalone Strength Drives Ratings: The ratings reflect de Volksbank N.V.'s simple but concentrated business model and franchise that lacks the breadth of the three larger Dutch banks. The ratings also reflect the bank's sound asset quality and overall moderate risk profile, with a focus on low-risk residential mortgage lending, satisfactory capitalisation and leverage, and stable funding underpinned by a granular and stable deposit base.

Stable Business Model: The bank is the fourth-largest commercial bank in the Netherlands with a market share of around 3% of total banking system assets. It operates exclusively in its home market with a clear focus on retail banking and a product offering focused on residential mortgage loans, savings and payments. Residential mortgages accounted for about 94% of the bank's total gross loans at end-June 2022.

Moderate Risk Profile: Fitch Ratings expects de Volksbank to maintain a conservative risk appetite, given its focus on low-risk residential mortgage lending in the Netherlands. Planned growth in SME lending will be contained in the medium-term and should not result into a material change in the bank's risk profile. SME lending will be mostly secured on property.

Asset Quality Supports Ratings: The bank's sound impaired loans ratio of 1.1% at end-June 2022 reflects its large and low-risk residential mortgage loan portfolio. We only expect a modest weakening of asset quality metrics in the next 12 to 24 months, despite the weakening economic outlook, as borrowers' ability to repay should be supported by resilient employment levels, and government support measures.

Satisfactory Profitability: We expect de Volksbank's profitability to steadily benefit from higher interest rates but its operating profit/risk-weighted assets (RWAs) ratio will remain well below the 2.9% four-year (2018–2021) average in the near term. This will be due to more intense competition and higher risk-weight density than a few years ago. The earnings generation capacity of the bank relative to some peers is constrained by its concentrated business model.

Strong Capital Buffers: The bank's strong common equity Tier 1 ratio (CET1; end-June 2022: 20.8%) benefits from the low risk-weighting of its large residential mortgage loans portfolio, which accounts for more than 60% of total assets. The bank operates with strong capital buffers above regulatory requirements. The regulatory leverage ratio of 4.6% at end-June 2022 is adequate for a bank concentrated on low-risk assets, although it is lower than at larger domestic peers.

Stable Funding, Sound Liquidity: Stable and granular retail and SME deposits form the bulk of de Volksbank's funding (about 84% at end-June 2022), underpinning Fitch's assessment of liquidity and funding. The bank's wholesale funding is limited and it is a less frequent issuer in debt capital markets than its larger Dutch peers. The bank's liquidity is strong and its buffer of liquid assets comfortably covers upcoming wholesale funding maturities.

Rating Sensitivities

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

Fitch believes a downgrade of the Viability Rating (VR) and Long-Term IDR is unlikely in the near term given de Volksbank's significant headroom at its current rating. However, a downgrade could result from a sustained deterioration of the operating environment if accompanied by a weaker assessment of de Volksbank's business and financial profiles.

A downgrade could also result from a significant loss of market share in mortgage lending, signalling a weakening in de Volksbank's business profile and profitability, together with a higher risk profile, for example through rapid expansion in riskier lending, which causes the impaired loans ratio to increase and be sustained above 2%. However, these scenarios are not our base case.

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

An upgrade of de Volksbank's ratings could result from a broader product and service offering that leads to more diversified revenue streams. This would reduce earnings variability and help to generate and sustain an operating profit/RWAs ratio close to 3%, thereby strengthening internal capital generation. This scenario, which Fitch believes is unlikely in the short term, would require the bank to maintain its conservative risk profile.

Other Debt and Issuer Ratings

Rating Level	Rating
Deposits	A/F1
Senior preferred debt	A/F1
Senior non-preferred debt	A-
Subordinated Tier 2	BBB

Source: Fitch Ratings

Short-Term IDR

The 'F1' Short-Term IDR is the higher of the two options that map to a 'A-' Long-Term IDR, driven by de Volksbank's funding and liquidity score of 'a'.

Senior Debt, Deposits and Derivative Counterparty Rating

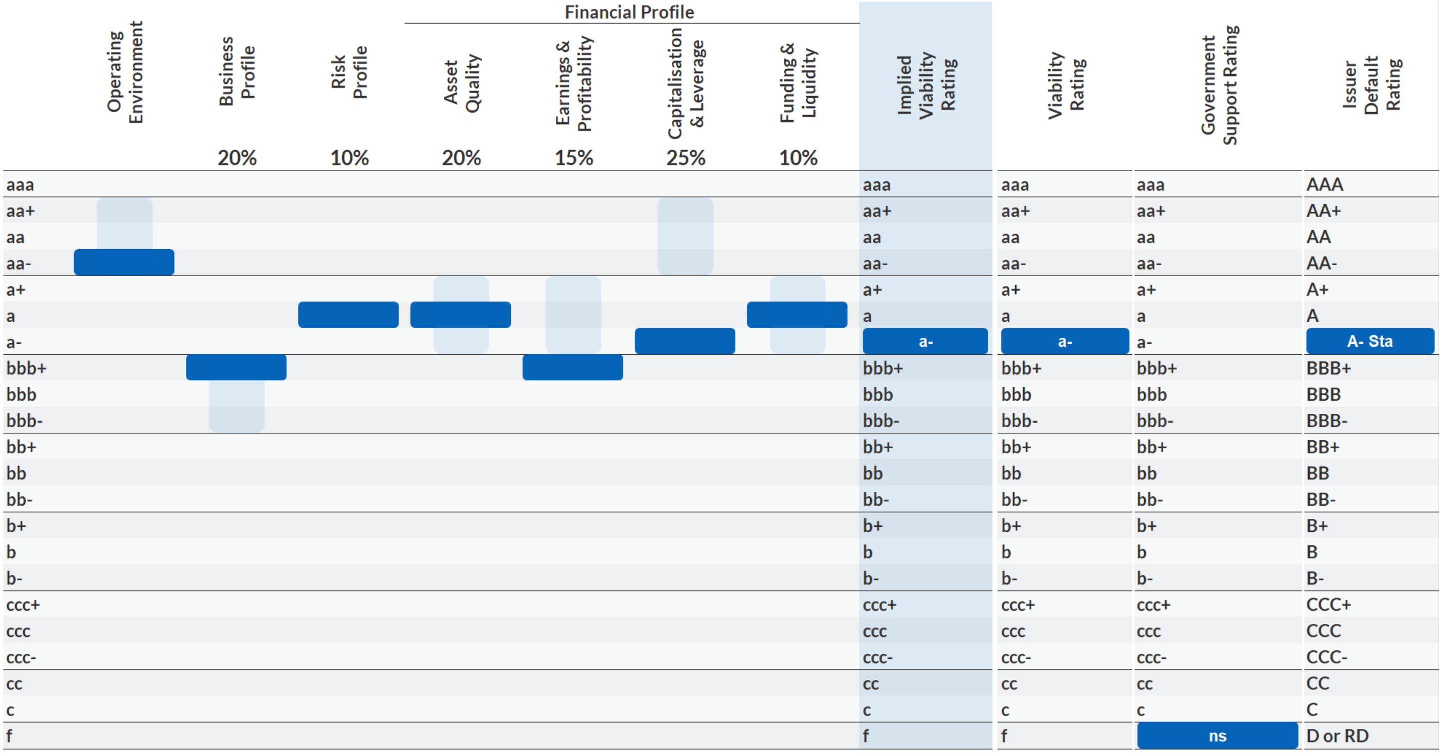
The bank's long-term senior preferred debt, long-term deposits and Derivative Counterparty Rating (DCR) are rated one notch above the bank's Long-Term IDR. This reflects Fitch's expectation that de Volksbank will meet its resolution buffer requirement only with senior non-preferred and more junior debt and equity instruments. For the same reason, we rate de Volksbank's senior non-preferred debt at 'A-', which is in line with its Long-Term IDR.

The short-term senior preferred and deposit ratings of 'F1' are the lower option mapping to 'A' respective long-term ratings, reflecting our assessment of the bank's funding and liquidity at 'a'.

Subordinated Debt

The bank's subordinated Tier 2 debt is rated two notches below the bank's VR, in line with the baseline notching for this type of debt, to reflect poor recovery prospects of these instruments. The instruments do not allow any coupon flexibility but have statutory loss-absorption features whereby they may be written down or converted to shares to absorb losses in resolution.

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 bench mark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The earnings and profitability score of 'bbb+' has been assigned below the 'a' category implied score due to the following adjustment reason: revenue diversification (negative).

The capitalisation & leverage score of 'a-' has been assigned below the 'aa' category implied score due to the following adjustment reason: Internal capital generation and growth (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Weaker Economic Outlook but Resilient Environment for Banks

The operating environment for Dutch banks will become more challenging in 2023 because of second-order effects from the war in Ukraine, but we believe that the operating environment score at 'aa-'/stable has some headroom to absorb a weakening of the economic outlook. Fitch expects economic growth will weaken in 2023 and 2024, primarily due to higher energy prices and other cost inflation, and from supply-chain disruptions or shortages in raw materials. This will damage business and consumer confidence and will erode households' real incomes, resulting in a moderate pressure on banks' asset quality, mainly stemming from the most vulnerable corporate borrowers. However, Fitch believes the current downturn will not permanently damage the Dutch economy and, thus, should not impair de Volksbank's capacity to generate sound business volumes in the near term. A tight labour market, high household savings accumulated during the pandemic, and ample fiscal room should mitigate the consequences of the weaker economic backdrop.

Business Profile

Domestic Retail Banking Business Model

The bank is the fourth-largest commercial bank in the Netherlands, serving more than 3 million customers, and has strong social recognition. It operates four separate brands (SNS, RegioBank, BLG Wonen and ASN Bank) under one banking licence. It focuses on providing Dutch residential mortgage loans and retail savings, in which it holds market shares of about 6% and 11%, respectively. Its modest business and product diversification results into a low-risk but undiversified business model, constraining the bank's business profile. The bank's focus on lending operations results into a particularly high reliance on net interest income (NII), which comprised 80% of revenue in 1H22 but has typically accounted for more than 90% over the past few years.

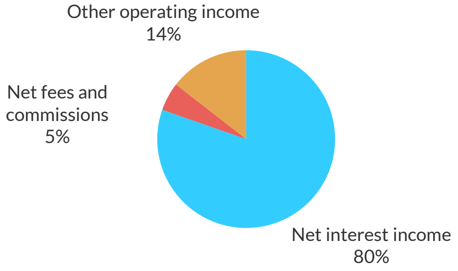
Delayed Privatisation, Clear Medium-Term Strategic Plan

The bank has been indirectly state-owned since 2013. In July 2022, the Dutch Minister of Finance stated that de Volksbank was not yet ready to be privatised. We believe the decision may be related to de Volksbank's monoline business profile and depressed valuations across the European banking sector. We expect the bank will need to show sustained progress in the execution of its strategic plan before a decision on its future ownership structure is made.

The bank's strategy is well-articulated with clear medium-term targets covering both financial and non-financial performance. The 2025 strategic plan focuses on growth through improving its product offering to existing clients and diversifying into SME banking. Cost reduction is another focus for the bank. It is aiming for a return on equity of 8% (1H22: about 5.5%), a cost/income ratio of 57%–59% (1H22: 70%), and a CET1 ratio under the Basel III endgame rules of at least 19% by end-2025 (end-June 2022: 20.8%). The bank also aims for at least 75% of its balance sheet to be climate-neutral by end-2025 (end-June 2022: 58%). If executed successfully, we would view the strategy as credit positive in the long run, if it results into business model diversification and improved profitability, while maintaining a conservative risk profile. Financial targets appear challenging but achievable, although we expect the bank's business model to remain dominated by residential mortgages for the next few years.

Operating Income

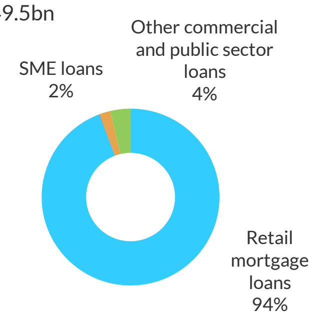
1H22: EUR463m



Source: Fitch Ratings, de Volksbank

Gross Loans

End-June 2022: EUR49.5bn



Source: Fitch Ratings, de Volksbank

Risk Profile

Underwriting Consistent with Industry Standards

We view the bank's underwriting standards for residential mortgage loans as prudent and consistent with industry standards. Dutch mortgage lending is mainly prime and owner-occupied. The bank's mortgage lending has been conducted at high loan/value (LTV) ratios by international standards, similar to its Dutch peers, and driven by past tax incentives to borrow. Regulatory changes adopted since 2011 have reduced the LTV cap at loan origination to 100%, which is still high, and require new mortgage loans to be fully amortising for interest expenses to be tax-deductible.

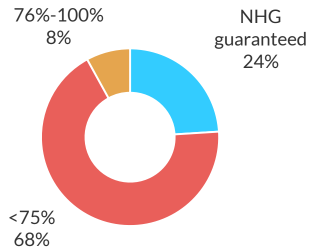
Loans with high LTVs and interest-only structures will remain a feature of Dutch banks' loan portfolios in the foreseeable future given the long maturity of the asset class. Fully interest-only loans made up about a fifth of de Volksbank's mortgage loans at end-June 2022 with partial interest-only mortgages accounting for a further 27%, both consistent with the prior year period. The large majority of mortgage loans had LTVs below 75% at end-June 2022, helped by strong house price growth. Fitch believes residential mortgage lending risks are mitigated by Dutch banks' focus on debt affordability and interest rate stress-testing at origination. The legal system is creditor-friendly and banks have full recourse to the borrowers.

Moderate Market Risk Exposure

The bank's exposure to market risk is moderate overall. We believe techniques to manage and monitor market risk are reasonably sophisticated and commensurate with the bank's business model. It is mainly affected by structural interest rate risk arising from its portfolio of mortgage loans with fixed-rate periods of longer than one year. These represent about 97% of the bank's mortgage loan book. The bank is well positioned to benefit from higher interest rates due to increased income from its interest rate swaps. It estimated that a 200bp parallel upward shift in the yield curve at end-June 2022 would lead to a EUR186 million increase in NII (equivalent to a high 25% of annualised 1H22 NII), benefitting from higher interest rate volatility.

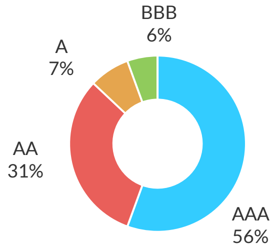
Credit spread risk in de Volksbank's securities portfolio is low and underpinned by the high quality of its investments. The majority of its investment portfolio comprises bonds issued by sovereign governments of core European countries and financial institutions with a credit rating of 'A' or above. Trading and currency risks are not material for the bank.

Mortgage Loans
End-June 2022 by loan-to-value



Source: Fitch Ratings, de Volksbank

Investment Portfolio
End-June 2022 by credit rating



Source: Fitch Ratings, de Volksbank

Financial Profile

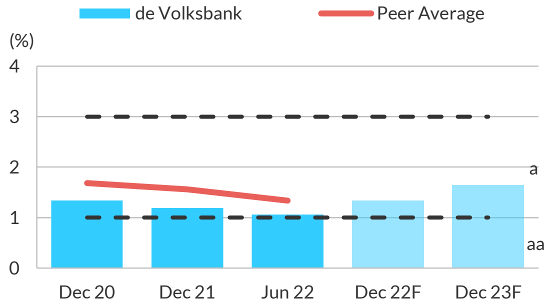
Asset Quality

Credit quality is likely to be challenged in the near term by the weaker economic outlook, higher interest rates and slowing house prices, but we expect deterioration to remain modest overall. The bank's strong asset quality will continue to be underpinned by its large, high-quality residential mortgage portfolio in the Netherlands. We expect its impaired loan ratio to remain below 2% in 2023.

Its stock of impaired loans fell by about 14% in 1H22 and amounted to 1.1% of gross loans at end-June 2022, slightly below the pre-pandemic level of around 1.3%. The fall in impaired loans was attributable to the mortgage book, which has continued to perform well, with arrears stable at 0.7%. Stage 2 loans accounted for a modest 3.3% of gross loans at end-June 2022 (end-2021: 3.6%).

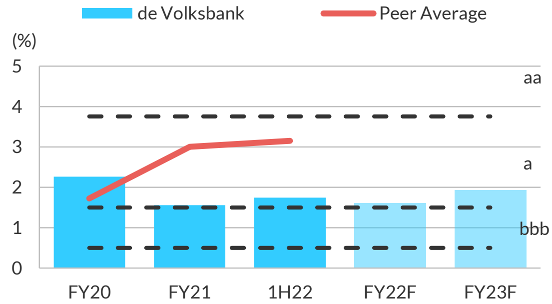
The coverage of impaired loans by loan-loss allowances rose to about 23% by end-June 2022 (end-2021: about 18%) but remains below that of peers. This reflects the bank's expectation of high recoveries, underpinned by full recourse to the borrower and swift collateral repossession in the Netherlands, as well as its larger-than-peer proportion of mortgages originated under the national mortgage guarantee (NHG) scheme. Up to 90% of mortgage losses are guaranteed under the NHG scheme.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

The bank has satisfactory profitability considering its simple and concentrated business model. The bank's revenue remained under pressure in 1H22 due to its reliance on NII, intense competition in mortgage lending and the costs of carrying a high liquidity buffer. NII had suffered in recent years due to the low interest rate environment but we expect significant improvement in 2023 given now higher prevailing interest rates.

The operating profit/RWAs ratio was relatively stable at 1.7% in 1H22 as higher treasury-related revenue and stable operating expenses were offset by lower NII and a normalisation of loan impairment charges (LICs). Non-interest income grew to EUR91 million (1H21: EUR25 million), mostly via a EUR51 million one-off treasury gain. This was primarily due to the exercise of interest rate swaptions that the bank uses for hedging purposes, which benefitted from the sharp rise in interest rates and high market volatility in the period. LICs were low at only 4bp of average gross loans in 1H22 and we expect them to remain below 10bp a year in the medium term, despite a weakening near-term global economic outlook, based on our expectation of modest deterioration in the bank's asset quality.

The bank's cost/income ratio has suffered in recent years from declining revenues and necessary investments in digitalisation and growth initiatives. The ratio of 70% in 1H22 was significantly above its peer average of around 53% but we expect it to gradually improve as revenue growth should more than offset high cost inflation.

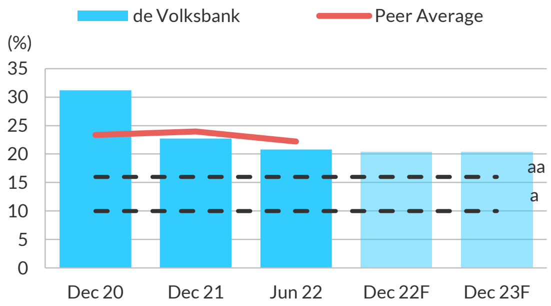
Capital and Leverage

Fitch views de Volksbank's capital planning as conservative as it targets a CET1 ratio of at least 19% (under Basel III endgame rules) and a minimum leverage ratio of 4.5%. The bank's CET1 ratio fell to 20.8% by end-June 2022 (end-2021: 22.7%), primarily driven by 7% growth in RWA. This was as a result of the bank's liquidity management as it held less excess liquidity with the central bank and increased exposure to financial institutions that carry higher risk-weights. We expect the CET1 ratio to be maintained comfortably above the bank's medium-term target in the next 12 to 24 months.

The bank will need to meet a minimum requirement for own funds and eligible liabilities (MREL) equating to around 7.8% of the leverage ratio exposure by 2024, which it intends to meet entirely with CET1 capital, subordinated and senior non-preferred debt. The bank's MREL ratio at end-June 2022 was 7.4%, above its intermediate requirement of

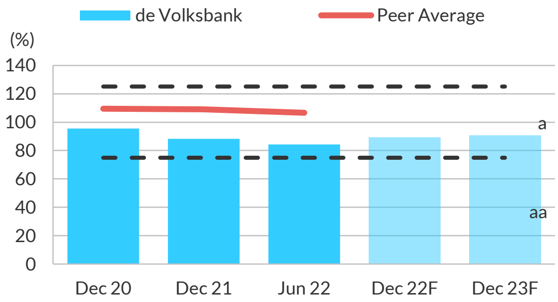
6.55%. Based on its current capital position, de Volksbank expects to issue senior non-preferred notes totalling EUR0.7 billion–1.3 billion up to 2024 to comply with MREL, which Fitch believes is manageable for the bank.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Retail customer deposits have consistently accounted for around 85% of de Volksbank's non-equity funding in recent years. This source of funding continued to grow despite the bank's introduction of negative rates above certain thresholds in 2021. Together with muted loan growth, this resulted in an improved gross loans/customer deposits ratio of 84% in 1H22 from 86% in 2021. Reliance on wholesale funding is low and mainly consists of covered bonds and senior debt.

The bank maintains a large buffer of high-quality liquid assets, which was about EUR12.7 billion at end-June 2022 and comfortably covered short- and medium-term wholesale funding maturities. The liquidity coverage ratio of 341% and net stable funding ratio of 179% compared favourably to peers and were well above the regulatory minimum of 100%.

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 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 'aa' category. Light-blue columns represent Fitch's forecasts.

Peer average includes ABN AMRO Bank N.V. (VR: a), Cooperatieve Rabobank U.A. (a+), ING Groep N.V. (a+), Nykredit Realkredit A/S (a), Realkredit Danmark A/S (a), Landshypotek Bank AB (a), Leeds Building Society (a-), Skipton Building Society (a-). The gross loans/customer deposits peer average excludes Nykredit, Realkredit and Landshypotek in each period.

Financials

Financial Statements

	30 Jun 22		31 Dec 21	31 Dec 20	31 Dec 19
	6 months - interim (USDm) Reviewed - unqualified	6 months - interim (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	386	372.0	775.0	850.0	875.0
Net fees and commissions	25	24.0	39.0	46.0	51.0
Other operating income	70	67.0	13.0	27.0	3.0
Total operating income	481	463.0	827.0	923.0	929.0
Operating costs	336	323.0	667.0	652.0	574.0
Pre-impairment operating profit	145	140.0	160.0	271.0	355.0
Loan and other impairment charges	11	11.0	-58.0	38.0	-7.0
Operating profit	134	129.0	218.0	233.0	362.0
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	35	34.0	56.0	59.0	87.0
Net income	99	95.0	162.0	174.0	275.0
Other comprehensive income	-111	-107.0	-22.0	6.0	2.0
Fitch comprehensive income	-12	-12.0	140.0	180.0	277.0
Summary balance sheet					
Assets					
Gross loans	51,397	49,482.0	50,834.0	50,708.0	50,580.0
- Of which impaired	543	523.0	607.0	678.0	645.0
Loan loss allowances	124	119.0	107.0	166.0	119.0
Net loans	51,273	49,363.0	50,727.0	50,542.0	50,461.0
Interbank	7,732	7,444.0	4,527.0	5,527.0	3,368.0
Derivatives	2,949	2,839.0	591.0	864.0	718.0
Other securities and earning assets	5,637	5,427.0	5,638.0	5,113.0	5,350.0
Total earning assets	67,591	65,073.0	61,483.0	62,046.0	59,897.0
Cash and due from banks	9,464	9,111.0	10,296.0	5,135.0	2,449.0
Other assets	700	674.0	302.0	303.0	495.0
Total assets	77,755	74,858.0	72,081.0	67,484.0	62,841.0
Liabilities					
Customer deposits	60,995	58,722.0	57,595.0	53,082.0	48,142.0
Interbank and other short-term funding	2,816	2,711.0	1,057.0	1,185.0	830.0
Other long-term funding	8,405	8,092.0	8,436.0	6,949.0	8,022.0
Trading liabilities and derivatives	1,077	1,037.0	1,013.0	2,163.0	1,841.0
Total funding and derivatives	73,293	70,562.0	68,101.0	63,379.0	58,835.0
Other liabilities	645	621.0	494.0	655.0	571.0
Preference shares and hybrid capital	310	298.0	n.a.	n.a.	n.a.
Total equity	3,508	3,377.0	3,486.0	3,450.0	3,435.0
Total liabilities and equity	77,755	74,858.0	72,081.0	67,484.0	62,841.0
Exchange rate		USD1 = EUR0.96274	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015

Source: Fitch Ratings, Fitch Solutions, de Volksbank

Key Ratios

	30 Jun 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.7	1.6	2.3	3.7
Net interest income/average earning assets	1.2	1.3	1.4	1.5
Non-interest expense/gross revenue	69.8	80.7	70.6	61.8
Net income/average equity	5.6	4.7	5.1	7.8
Asset quality				
Impaired loans ratio	1.1	1.2	1.3	1.3
Growth in gross loans	-2.7	0.3	0.3	-0.2
Loan loss allowances/impaired loans	22.8	17.6	24.5	18.5
Loan impairment charges/average gross loans	0.0	-0.1	0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	20.8	22.7	31.2	32.6
Fully loaded common equity Tier 1 ratio	20.8	22.5	n.a.	n.a.
Tangible common equity/tangible assets	4.5	4.8	5.1	5.5
Basel leverage ratio	4.6	5.1	5.2	5.1
Net impaired loans/common equity Tier 1	13.0	15.7	15.9	16.7
Funding and liquidity				
Gross loans/customer deposits	84.3	88.3	95.5	105.1
Liquidity coverage ratio	340.8	324.0	233.0	182.0
Customer deposits/total non-equity funding	84.1	85.9	86.7	84.5
Net stable funding ratio	178.7	176.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, de Volksbank

Support Assessment

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

The GSR of 'ns' reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign in the event that de Volksbank 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 participating in losses, if necessary, instead of, or ahead of, a bank receiving sovereign support. This is despite the Netherlands government's 100% ownership of de Volksbank, which we view as non-strategic due to its ultimate aim to privatise the bank.

Environmental, Social and Governance Considerations

Overall ESG

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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