

Norddeutsche Landesbank Girozentrale

Key Rating Drivers

Owners Support Drives Ratings: Norddeutsche Landesbank Girozentrale's (NORD/LB) support-driven Issuer Default Ratings (IDRs) reflect its public sector owners' commitment to the bank, which was recapitalised in 2019. They also reflect the bank's statutory role and its membership of Sparkassen Finanzgruppe's (SFG; A+/Negative) institutional protection scheme (IPS). The Negative Outlook mirrors that of SFG and reflects medium downside risks of the economic fallout from the coronavirus pandemic lasting longer than we expect.

Profitability Drives VR: NORD/LB's Viability Rating (VR) reflects the bank's shifting business model and poor profitability. The bank's adequate capitalisation and funding are relative rating strengths and should support the VR in the 'bb' range through the crisis.

High Execution Risk: NORD/LB's restructuring is progressing satisfactorily in terms of balance-sheet and headcount reduction and the wind-down of its remaining shipping exposure. However, the implementation of measures to achieve its ambitious medium-term cost and revenue targets are at an early stage. The pandemic could weigh on the programme's success, despite Fitch Ratings' expectation of an economic recovery in 2021.

Weak Performance Prospects: High loan impairment charges (LICs), payments for guarantees received and restructuring costs could result in a net loss in 2020. Performance prospects for 2021 are weak and risks are skewed to the downside despite planned cost cuts. We expect LICs to remain high in 2021 due to loan migrations to Stage 3.

Asset Quality Weakening: NORD/LB's Stage 3 loans ratio improved to 2.7% at end-1H20. However, asset quality in the non-guaranteed aviation portfolio has deteriorated rapidly. Together with an expected surge in corporate defaults, this is likely to put pressure on the bank's target non-performing loan (NPL) ratio of below 2%.

Capitalisation Will Decline: We expect pressure on NORD/LB's capitalisation (14.1 % common equity Tier 1, CET1, ratio end-3Q20) to intensify in the coming months. However, Lower Saxony's contractual provisions to reinvest its received guarantee payments into the bank's equity should mitigate the impact on capitalisation from NORD/LB's expected credit losses.

Funding Costs Manageable: NORD/LB is mainly wholesale-funded, with reasonable costs and low refinancing volumes due to its shrinking balance sheet. It will discontinue the covered bond business conducted by its subsidiary NORD/LB Luxembourg S.A. Covered Bond Bank from 2022, but Fitch expects only a minor impact on the bank's funding capacity and costs.

Rating Sensitivities

Execution is Key Sensitivity: NORD/LB's support-driven ratings would likely be downgraded if a failed execution of the business plan threatens its viability again. In this case an orderly wind-down under the owners' sponsorship would become increasingly likely. The ratings could also be downgraded if we believed a private investor could acquire a significant stake in the bank.

Fitch could upgrade the VR if NORD/LB delivers two consecutive profitable years and its CET1 ratio remained above 13%. We could downgrade the VR on a material deviation from its business plan, in particular a weak execution of the bank's cost-cutting programme or an inability to generate adequately priced new business. We could also downgrade the ratings if we expected NORD/LB's CET1 ratio to fall below 12% for a sustained period or if specific coverage of Stage 3 loans deteriorated materially.

Ratings

Issuer Ratings	
Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)

Viability Rating	bb
Support Rating	1

Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

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

Applicable Criteria

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

Related Research

[Fitch Affirms NORD/LB at 'A-' Negative, Withdraws NORD/LB CBB \(Lux\) \(December 2020\)](#)

[Fitch Ratings 2021 Outlook: Western European Banks \(December 2020\)](#)

[Fitch Affirms Sparkassen-Finanzgruppe at 'A+'; Outlook Negative \(August 2020\)](#)

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Debt Rating Classes

Rating level	Rating
Long-term deposit rating	A
Short-term deposit rating	F1
Long-term senior preferred debt	A
Short-term senior preferred debt	F1
Long-term senior non-preferred debt	A-
Non-guaranteed Tier 2 subordinated debt	B+
State-guaranteed/grandfathered senior and subordinated debt	AAA

Source: Fitch Ratings

NORD/LB's senior non-preferred (SNP) debt is equalised with the bank's IDRs to reflect our view of a very high probability of support from its owners.

The bank's preferred debt ratings (SP), Derivative Counterparty Rating and deposit ratings are rated one notch above the bank's Long-Term IDR. This is to reflect the protection that could accrue to them from more junior resolution debt, and equity buffers that we expect to sustainably exceed 10% of its risk-weighted assets.

Fitch rates NORD/LB's short-term senior preferred and deposit ratings at 'F1', which is the lower of the two ratings that map to an 'A' long-term SP and deposit rating. This is because our assessment of NORD/LB's funding and liquidity score is not sufficiently high to achieve a higher short-term rating.

The ratings of NORD/LB's grandfathered state-guaranteed senior and Tier 2 notes are equalised with the Long-Term IDRs of their guarantors, the German federal states of Lower Saxony and Saxony-Anhalt. This reflects our opinion that both states' ability and propensity to honour their guarantees are very strong.

NORD/LB's non-guaranteed Tier 2 subordinated bond rating is notched twice from its VR to reflect loss severity in line with Fitch's baseline approach.

The ratings of NORD/LB Luxembourg S.A. Covered Bond Bank (NORD/LB CBB) were affirmed and subsequently withdrawn for commercial reasons in December 2020. Fitch will no longer provide ratings or analytical coverage for this entity.

Ratings Navigator

Norddeutsche Landesbank Girozentrale



Ratings Navigator **Banks**

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Institutional Support	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

Navigator Peer Comparison

Peer Group Summary

	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating
Bayerische Landesbank	aa- ↓	bbb ■	bbb ■	bbb+ ■	bbb+ ▼	bbb- ▼	bbb+ ▼	bbb+ ■	bbb
Landesbank Baden-Wuerttemberg	aa- ↓	bbb ■	bbb ■	bbb+ ■	bbb+ ▼	bbb- ▼	bbb+ ▼	bbb+ ■	bbb
Landesbank Saar	aa- ↓	bb+ ■	bbb- ■	bbb- ■	bbb- ▼	bbb- ▼	bb+ ▼	bbb ■	bb+

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

Institutional Support Assessment

Institutional Support				Value
Parent IDR				A+
Total Adjustments (notches)				-2
Institutional Support:				A-
Support Factors (negative)	Equalised	1 Notch	2+ Notches	
Parent ability to support and subsidiary ability to use support				
Parent/group regulation				✓
Relative size		✓		
Country risks	✓			
Parent Propensity to Support				
Role in group		✓		
Potential for disposal		✓		
Implication of subsidiary default		✓		
Integration			✓	
Size of ownership stake		✓		
Support track record	✓			
Subsidiary performance and prospects				✓
Branding		✓		
Legal commitments			✓	
Cross-default clauses			✓	

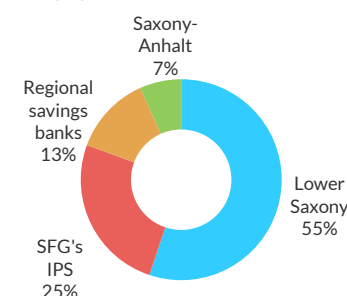
High Probability of Support from SFG

NORD/LB's Long-Term IDRs and Support Rating are driven by institutional support from the bank's owners: the federal states of Lower Saxony and Saxony-Anhalt (both AAA/Stable), three regional savings banks associations and, following NORD/LB's recapitalisation at end-2019, SFG's IPS. In our view, the recapitalisation by the bank's owners underlines their commitment to their long-term investment in the bank, also in light of NORD/LB's statutory roles. These roles include supporting the regional economy and acting as the central institution for the regional savings banks and as house bank for its federal state owners. Fitch's institutional support assumptions are also underpinned by the statutes of the institutional protection fund of SFG and the Landesbanken.

Fitch uses SFG's Long-Term IDR as the anchor rating for determining the NORD/LB's support-driven ratings, and NORD/LB's Outlook mirrors that of SFG. This is because Fitch believes support would need to be forthcoming from SFG along with the bank's federal state owners to avoid triggering state-aid considerations and resolution under the German Recovery and Resolution Act if NORD/LB fails again. We notch down NORD/LB's Long-Term IDR twice from SFG's 'A+' to reflect regulatory restrictions on support due to the requirement for state-aid examination under EU competition rules. The two-notch difference in the ratings also reflects the strategic but not key and integral role of NORD/LB for its respective owners and its weak performance in the past.

Ownership Structure

End-2020



Source: Fitch Ratings, NORD/LB

Significant Changes

Restructuring Is Taking Shape but Execution Risk Remains High

NORD/LB agreed a comprehensive restructuring programme with the European Commission as a condition for the recapitalisation of the bank in 2019, which did not trigger state-aid proceedings. The programme targets a reduction in NORD/LB's balance sheet to EUR95 billion by 2024 from EUR154 billion at end-2018 and a winding-down of its shipping business, which to date has progressed according to the plan. In 3Q20 NORD/LB reduced its shipping exposure by a further EUR1.7 billion to EUR2.9 billion. More than 85% of this exposure is either guaranteed or securitised.

NORD/LB expects NPLs in the shipping portfolio to have decreased to about EUR1 billion at end-2020 and to nearly zero in 2021. We believe that this target is achievable considering the high 60% coverage ratio of the NPLs. Foreign-exchange rate risk in NORD/LB's loan book caused by the large proportion of US dollar-denominated lending in shipping finance has also decreased in line with the reduction of exposure to a level comparable to peers.

NORD/LB's plans aim to achieve a EUR200 million increase in revenue and a EUR400 million cost reduction by end-2024, which according to the bank will allow it to generate a 7% net return on equity. The bank has started several projects, which should gradually benefit the bank's earnings. The plan to reduce staff to about 2,800 to 3,000 is on schedule following redundancies for almost 1,100 domestic employees in late 2020.

Execution risk in restoring the bank's profitability remains high in the current environment due to the combination of persistent low interest rates, the risk of unexpected high credit losses, and strong competitive pressure. Although Germany's economy has so far come through the pandemic crisis better than many other large European countries, the ultimate implications of the pandemic on the German economy and financial market remain unclear as the second wave of infections threatens to slow down the recovery in the short term.

Under the restructuring plan, NORD/LB will merge its real estate financing subsidiary, Deutsche Hypothekbank into the bank while maintaining the company's brand. The legal merger is expected to take place on 1 July 2021 and should allow NORD/LB to extract cost synergies in back office functions. In December 2020, the bank decided to discontinue the covered bonds business conducted by its subsidiary NORD/LB Luxembourg S.A. Covered Bond Bank from 2022 and will likely issue covered bonds in 2021 only as private placements.

NORD/LB is considering further changes to its structure, including a carve-out of its local retail banking division, which operates under the brand Braunschweigische Landessparkasse. This is likely to be a lengthy process, however, because the subsidiary does not hold a banking licence and operates within NORD/LB's core banking system. Other planned organisational changes, including the carve-out of pass-through lending conducted with KfW (AAA/Stable) and of the integrated regional development banks, will likely be postponed. This is due to the high demand for emergency loans of these institutions during the current crisis.

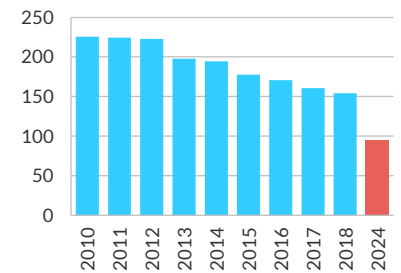
Brief Company Summary

Regionally Focused Lender

NORD/LB is a public-sector-owned wholesale bank that operates primarily in northern Germany and has only modest international operations. The bank focuses on corporate and asset-based finance. NORD/LB is also the state bank for the federal states of Lower Saxony and Saxony-Anhalt and the central institution for the savings banks in both regions and in Mecklenburg-Western-Pomerania.

The bank is undergoing a restructuring programme after being recapitalised by its owners, and the ability of its future business model to deliver adequate returns remains unproven. Like its Landesbanken peers, the bank's pricing power is limited and margins are low due to strong competition in corporate banking in Germany. In some segments, however, including the agricultural sector, the bank's established relationships allow for moderate pricing power.

Total Assets
(EURbn)



Source: Fitch Ratings, NORD/LB

Summary Financials and Key Ratios

	30 Jun 20		31 Dec 19	31 Dec 18	31 Dec 17
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	567	506	1,024	1,279	1,417
Net fees and commissions	-30	-27	41	52	112
Other operating income	-19	-17	151	-109	640
Total operating income	517	462	1,216	1,222	2,169
Operating costs	517	462	970	1,253	1,415
Pre-impairment operating profit	0	0	246	-31	754
Loan and other impairment charges	111	99	-29	1,893	991
Operating profit	-111	-99	275	-1,924	-237
Other non-operating items (net)	118	105	-305	-133	432
Tax	2	2	39	297	60
Net income	4	4	-69	-2,354	135
Other comprehensive income	111	99	-327	-248	39
Fitch comprehensive income	115	103	-396	-2,602	174
Summary balance sheet					
Assets					
Gross loans	87,345	78,001	82,909	91,024	95,116
- Of which impaired	2,393	2,137	2,714	2,765	8,704
Loan loss allowances	1,514	1,352	1,595	3,971	3,508
Net loans	85,832	76,649	81,314	87,053	91,608
Interbank	17,704	15,810	20,701	25,406	27,660
Derivatives	7,411	6,618	5,897	5,488	6,152
Other securities and earning assets	28,485	25,438	26,536	31,762	33,771
Total earning assets	139,432	124,515	134,448	149,709	159,191
Cash and due from banks	7,640	6,823	3,454	1,519	2,436
Other assets	2,451	2,189	1,717	2,784	2,198
Total assets	149,523	133,527	139,619	154,012	163,825
Liabilities					
Customer deposits	60,849	54,339	57,887	62,447	62,217
Interbank and other short-term funding	37,296	33,306	35,517	44,244	45,550
Other long-term funding	31,746	28,350	29,837	34,509	40,096
Trading liabilities and derivatives	7,626	6,810	6,395	6,186	6,650
Total funding	137,517	122,805	129,636	147,386	154,513
Other liabilities	5,356	4,783	4,145	3,222	3,095
Preference shares and hybrid capital	56	50	50	50	50
Total equity	6,594	5,889	5,788	3,354	6,167
Total liabilities and equity	149,523	133,527	139,619	154,012	163,825
Exchange rate		USD1 = EURO0.893,017	USD1 = EURO0.89,015	USD1 = EURO0.873,057	USD1 = EURO0.83,382

Source: Fitch Ratings, Fitch Solutions, NORD/LB

Summary Financials and Key Ratios

	30 Jun 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-0.5	0.7	-4.2	-0.5
Net interest income/average earning assets	0.8	0.8	0.9	0.9
Non-interest expense/gross revenue	100.2	82.3	104.4	67.9
Net income/average equity	0.1	-1.8	-43.3	2.2
Asset quality				
Impaired loans ratio	2.7	3.3	3.0	9.2
Growth in gross loans	-5.9	-8.9	-4.3	-10.8
Loan loss allowances/impaired loans	63.3	58.8	143.6	40.3
Loan impairment charges/average gross loans	0.2	0.0	1.9	1.0
Capitalisation				
Common equity Tier 1 ratio	13.6	14.5	6.8	12.4
Tangible common equity/tangible assets	4.1	3.8	2.1	3.7
Basel leverage ratio	4.2	4.1	2.1	3.4
Net impaired loans/common equity Tier 1	13.9	19.3	-38.8	89.5
Funding and liquidity				
Loans/customer deposits	143.6	143.2	145.8	152.9
Liquidity coverage ratio	164.1	166.5	150.3	204.9
Customer deposits/funding	46.8	46.9	44.1	42.0

Source: Fitch Ratings, Fitch Solutions, NORD/LB

Key Financial Metrics – Latest Developments

Pandemic, Guarantee Fees and Restructuring Costs Weigh on Profitability

NORD/LB reported a consolidated pre-tax loss of EUR76 million in 9M20 and announced a loss for the full year. This was driven by high restructuring costs as well as LICs and guarantee payments, mitigated by fair value gains on the guarantees. LICs reached EUR275 million in 9M20, the majority of which were driven by model adjustments and loan migrations to Stage 2. Performance prospects for 2021 are skewed to the downside as we expect LICs to remain high due to loan migrations to Stage 3, and we expect NORD/LB to remain loss-making in 2021.

NORD/LB’s operating profitability is likely to remain weak in the medium term. The deleveraging and restructuring programme could weaken NORD/LB’s franchise and client loyalty amid intense competition, which could ultimately put pressure on its business model.

The bank plans to reduce its reliance on net interest income, which will remain under pressure, by developing fee-generating capital markets and lending businesses. We believe the bank’s targets in these segments are highly ambitious and expect performance to remain volatile for the foreseeable future, with potential significant deviations from its business plan as its business model evolves until 2024. In the longer term, we expect its pricing power to remain weak in its main business lines, as with Landesbanken peers’.

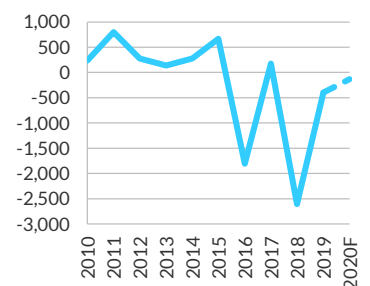
Reinvested Guarantee Cushions Capitalisation’s Downward Drift

NORD/LB’s capitalisation is a relative rating strength. Its transitional CET1 ratio fell moderately to 14.1% at end-3Q20 from 14.5% end-2019 due to the bank’s 9M20 loss and risk-weighted assets (RWAs) inflation. The latter was driven by re-ratings, the termination of securitisations and regulatory changes.

We expect NORD/LB’s CET1 ratio to decline to close to 13% due to re-ratings and subdued performance in the coming quarters. However, we expect the bank to maintain adequate

Volatile Performance

Fitch Comprehensive Income, EURm



Source: Fitch Ratings, NORD/LB

headroom over regulatory requirements as its capitalisation benefits from Lower Saxony's commitment to reinvest the fees it receives for guaranteeing large parts of the aviation and shipping portfolios in the bank (around 90bp of CET1 over the guarantees' life time). We believe capital ratios could come under greater pressure in a downside scenario that results in higher LICs given the bank's weak operating profitability and its highly concentrated business model.

In the medium term, regulatory-driven RWAs inflation will continue to weigh on capital ratios, but this should be offset by resumed profitability. NORD/LB's capitalisation is also likely to rein in its risk appetite as the bank will have to concentrate on increasing its capital ratios.

NORD/LB has indicated that dividend payments to its shareholders, initially planned for 2023, could resume later, reflecting both the pandemic and the uncertain economic environment. We believe that maintaining a sound capitalisation and a low-risk profile rather than maximising the return on investment is also the priority for NORD/LB's owners, and in particular for SFG.

Asset Quality Risks Are Highest in the Aviation Portfolio

The bank's Stage 3 ratio improved to 2.7% at end-1H20 from 3.3% end-2019 reflecting the bank's further deleveraging of its shipping portfolio. Over the same period, Stage 2 loans increased from 3.6% to 4.9%, with a constant coverage of 3.3%. This is well below German peers' Stage 2 ratios at end-1H20 and we expect a significant rise in NORD/LB's Stage 2 loans from 2H20 onwards.

NORD/LB has material exposure to the aviation sector (EaD, EUR4.1 billion), which we believe constitutes the riskiest part of the bank's loan portfolio in the current environment. Although about 55% of the exposure to the sector is protected by a guarantee from its owners, NPLs in the non-guaranteed part of the aviation portfolio (EaD, EUR1.9 billion) materially deteriorated in 2020 and the NPL ratio increased to 9% at end-3Q20.

Pre-crisis loan quality in the corporate portfolio was good, in line with other Landesbanken. Single-name and sector concentration is high though comparable to peers'. But exposure to highly cyclical sectors including automotive and leveraged finance is relatively low and limits are conservative. NORD/LB's exposure to Commercial Real Estate (CRE), 70% of which is in Germany, appears well controlled as debt service and interest coverage ratios are adequate. However, the segment remains exposed to short-term credit losses in the EUR1 billion hotel and in the EUR4 billion retail portfolios and post-pandemic structural changes in the EUR6 billion office portfolio. NORD/LB's special finance portfolio excluding aviation benefits from a resilient performance in the renewable energy segment.

ECB and Membership in SFG's IPS Support Funding and Liquidity

NORD/LB's funding, like that of other Landesbanken, benefits from the savings banks' excess liquidity placed with the bank, as well as from customer deposits that are mainly sourced from corporate and SME clients. The bank also has some retail deposits through Braunschweigische Landessparkasse. NORD/LB's reliance on interbank funding remains reasonable in light of its wholesale banking business model, at about 30% of total funding in recent years (including TLTRO). The reduction of the balance sheet means the bank's reliance on capital market funding will decline in the coming years.

NORD/LB's regular Pfandbrief issuance remains an important pillar for its funding, with increased untapped potential from the merger of NORD/LB's and Deutsche Hypothekbank's cover pools. We do not expect the bank's decision to discontinue covered bonds issuance from its Luxembourg-based subsidiary will affect its funding profile meaningfully.

NORD/LB's liquidity is adequate. The bank's Liquidity Coverage Ratio (LCR) remained above 130% in 2020, underpinned by a security portfolio of EUR26 billion, 80% of which is eligible for central bank refinancing.

Environmental, Social and Governance Considerations

The highest level of ESG credit relevance is a score of '3'. ESG issues are credit-neutral or have only a minimal credit impact on NORD/LB, either due to their nature or to the way in which they are being managed by the bank. For more information on our ESG Relevance Scores, visit www.fitchratings.com.

FitchRatings Norddeutsche Landesbank Girozentrale

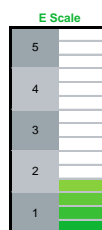
Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation		Overall ESG Scale			
Norddeutsche Landesbank Girozentrale has 5 ESG potential rating drivers		key driver	0	issues	5
<ul style="list-style-type: none"> Norddeutsche Landesbank Girozentrale 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. 	driver	0	issues	4	
		potential driver	5	issues	3
			4	issues	2
		not a rating driver	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.

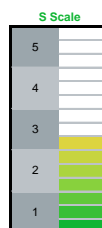
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far 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.

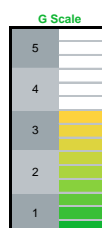
Social (S)

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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