FitchRatings

Banks
Retail & Consumer Banks
Austria

Volksbanken-Verbund

Key Rating Drivers

Mutual Support Drives Group Ratings: Volksbanken-Verbund (VB-Verbund) is not a legal entity, but a medium-sized network of Austrian cooperative banks, whose cohesion is primarily ensured by their mutual support scheme. VB-Verbund's Issuer Default Ratings (IDRs) apply to each individual member bank, in accordance with *Annex 4* of the *Bank Rating Criteria* for rating banking structures backed by mutual support schemes.

Intragroup Consolidation Completed: The consolidation of VB-Verbund's member banks initiated in 2012 has reduced the number of member banks to nine. The consolidation process has been well-controlled and well-executed in a demanding operating turnaround process, despite the group's challenging initial structure and its ambitious consolidation schedule.

Improving Asset Quality: VB-Verbund's loan book mainly consists of domestic retail and small SME clients. Its non-performing loans (NPLs; regulatory definition) continued to decline to 2.5% of gross customer loan exposure at end-1H19, which is broadly in line with larger Austria-focused peers. The management aims to keep NPLs sustainably below 3%, which we view as realistic thanks to strengthened risk controls and fairly prudent risk appetite.

Stabilised, but Modest Profitability: VB-Verbund's profitability has stabilised and considerably improved after several years of legacy-related losses and restructuring costs. The group broke even in 2017 and the positive trend continued in 2018 and 1H19, driven by business growth, much lower risk charges and positive one-offs (in particular gains from the sale of non-core foreign subsidiaries). We expect further improvement, but the intense competition in Austrian retail banking is likely to constrain long-term profitability.

Profit Retention Constrained: VB-Verbund has initiated capital-enhancing measures to retain a sufficient buffer over its increased regulatory capital requirements and mitigate regulatory risk-weight inflation. The group's obligation to repay, by end-2023, the government the EUR225 million still due from the bailout measures received during the crisis a decade ago will constrain its medium-term earnings retention. However, we view the management's target of a minimum common equity Tier 1 (CET1) ratio of at least 12.25% as realistic and adequate.

New Statutory Deposit Protection Scheme: VB-Verbund's funding mix is underpinned by stable and granular retail and small SME deposits, most of which do not exceed EUR100,000 and are insured by the new Austrian statutory deposit protection scheme (DPS) since the beginning of 2019. The Austrian DPS can only be called upon if the mutual support scheme has failed to ensure VB-Verbund's viability. This change does not affect our considerations on depositor protection, which we view as strong.

Capital Market Access Regained: The group has gradually restored its access to capital markets through covered bond, additional Tier 1 and Tier 2 capital issuance. We also expect Volksbank Wien (VBW), the group's central institution (CO), to increase issuance of senior unsecured debt to fulfil regulatory requirements.

Rating Sensitivities

Upgrade Contingent on Stronger Earnings: An upgrade is contingent on a significant and sustainable improvement in cost efficiency and operating profitability. A failure to achieve sufficient cost savings or an unlikely severe downturn in Austria's economy could constrain profitability and lead to a downgrade.

Modest Franchise Caps VR: The Viability Rating (VR) is unlikely to rise above the 'bbb' category over the rating horizon due to the group's modest profit generation, also driven by a small market share in the generally low-margin, high-cost Austrian retail banking market.

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F2
Viability Rating	bbb
Support Rating	5
Support Rating Floor	No Floor
Sovereign Risk	
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	Positive
Sovereign Long-Term Local-Currency IDR	Positive

Related Research

Fitch Affirms VB-Verbund at 'BBB'; Outlook Stable (January 2020)

Fitch Ratings 2020 Outlook: Western European Banks (December 2019)

Applicable Criteria

Short-Term Ratings Criteria (May 2019)
Bank Rating Criteria (October 2018)

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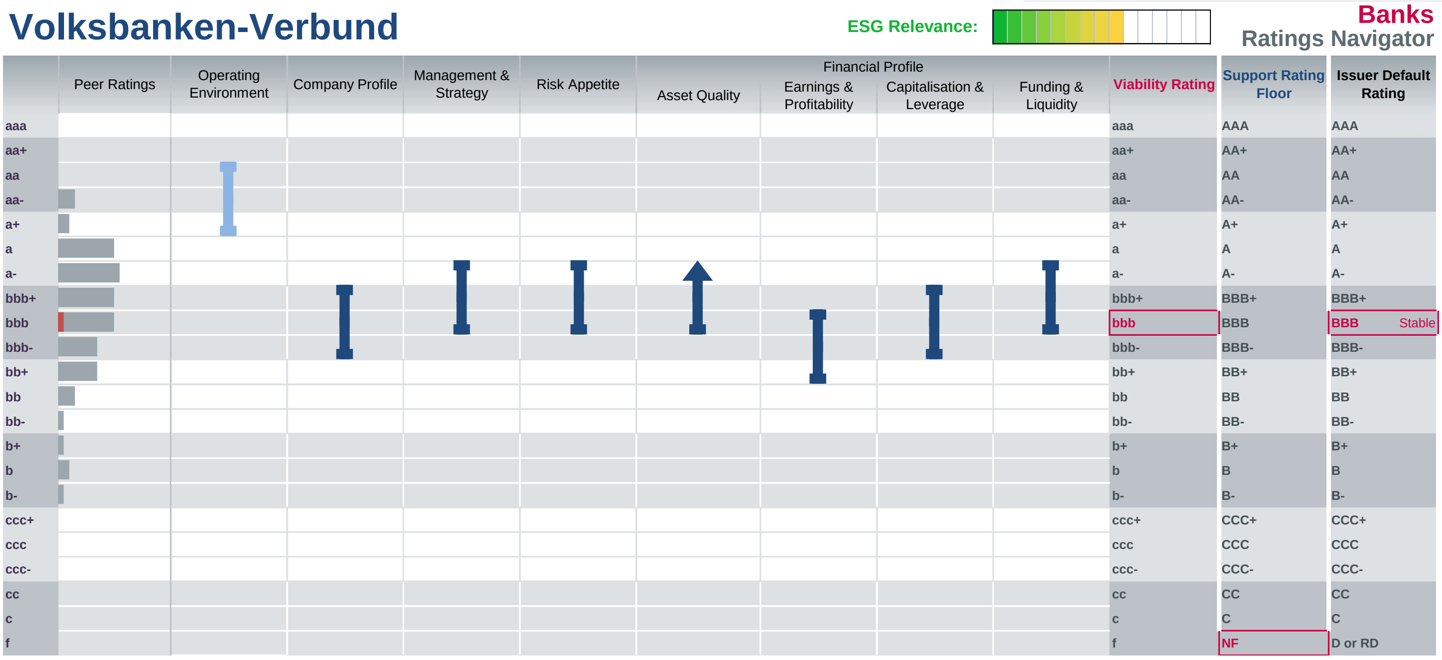
Volksbanken-Verbund



Significant Changes

Intragroup Consolidation Completed

The merger of Waldviertler Volksbank Horn into VBW in 2018 and the sale of two small subsidiaries in Switzerland (2018) and Liechtenstein (2019) mark the completion of the intragroup consolidation of VB-Verbund's member banks. The local cooperative banks have merged from 63 entities at end-2013 into eight regional banks, roughly mirroring Austria's federal structure, and one specialised bank operating nationwide. This had been agreed with the regulator in 2014 following the crisis of the group's former CO, Oesterreichische Volksbanken AG (OeVAG), during the 2008 financial crisis. VBW is the largest member by a wide margin with total assets of EUR12 billion at end-1H19 and has functioned as the group's CO since 2015.

The consolidation has been well-controlled and well-executed following an ambitious schedule amid a demanding operating turnaround process and despite the group's challenging initial structure and some member banks' initial resistance. We have upgraded the group's management & strategy score to reflect that execution risk is significantly lower as a result of the simplified group structure. In addition to lowering operating and regulatory costs, the mergers have improved the group's cohesion and the reduced complexity significantly lowers operational risk. The individual member banks should become less vulnerable as their profitability, asset quality and capitalisation improve and converge.

New Austrian Statutory DPS

Since 2019, VB-Verbund has been contributing to the Austrian statutory DPS, which replaced Volksbank Einlagensicherung eG, the group's former own DPS. The new scheme would reimburse up to EUR100,000 per eligible depositor in case of insolvency of the group, in line with the EU's Deposit Guarantee Schemes Directive. The Austrian DPS can, therefore, only be called upon if the mutual support scheme has failed to ensure VB-Verbund's viability. This change does not affect our considerations on depositor protection, which we view as strong. The vast majority of VB-Verbund's depositors are mass retail clients that do not exceed the EUR100,000 threshold.

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

List of Rated Members of VB-Verbund

Oesterreichische Aerzte- und Apothekerbank AG
Volksbank Kaernten eG
Volksbank Niederoesterreich AG
Volksbank Oberoesterreich AG
Volksbank Salzburg eG
Volksbank Steiermark AG
Volksbank Tirol AG
VOLKSBANK VORARLBERG e.Gen.
VOLKSBANK WIEN AG

Source: Fitch Ratings

Company Summary and Key Qualitative Assessment Factors

Resilient Austrian Economy, Banking Sector's Profitability Nears Cyclical Peak

Austria (AA+/Positive) has a rich, diversified, open, high-value-added economy with strong political and social institutions, low private-sector debt and a high household savings rate. Fitch expects economic growth to average 1.6% in 2019, with strong investments and a tight labour market being partially offset by a weakening external sector. Foreign demand will be a constraint in 2020 as continued trade tensions and a marked slowdown in Austria's trading partners continue exerting pressure on exports. The Positive Outlook on the sovereign rating reflects the favourable fiscal and debt/GDP developments.

The Austrian banking sector's profitability further improved to strong levels well above its cyclical average in 2019, leading to stronger capital ratios that now compare well with European peers. However, we believe the sector's performance is increasingly likely to have peaked. This is because we do not expect the current extremely low loan impairment charges to be sustainable, and the margin pressure from the low interest rates is likely to continue.

Low interest rates and favourable credit conditions continue to fuel demand for loans, increasingly from corporates in the residential real-estate sector. The low rates inflated housing prices yoy by over 6% on average over the past five years. This increasingly exposes banks' asset quality to the risk of loosening lending policies. However, macro-prudential measures introduced by the Austrian authorities in 2H18 mitigate this risk and underwriting standards remain adequate.

Medium-Sized, Domestic Retail-Focused Cooperative Banking Group

VB-Verbund focuses on Austrian retail, self-employed and small SME clients. The member banks collectively serve about 1.1 million clients via about 280 branches. The group has modest nationwide retail market shares of 7% on average, but the member banks generally have stronger local franchises and customer loyalty in rural areas.

The group complements its highly standardised product mix with consumer lending and asset-management products from DZ BANK AG Deutsche Zentral-Genossenschaftsbank (AA-/Stable), the German cooperative banking group's CO. The revenue diversification from this outsourcing agreement compensates for VB-Verbund's limited size, which would make it uneconomical to produce these services on its own.

Verbund Contract Strengthens Central Organisation and Governance

The Verbund (group) contract, in force since 2016, gives the CO broad discretionary powers. VBW's management can unilaterally issue binding orders to all or single member banks and impose support measures. The contract ensures the effectiveness of the group's governance, mutual support and organisation by governing the CO's powers, duties and interactions with the member banks. This enables VB-Verbund's recognition as a financial institution group by the Single Resolution Board, although its member banks are legally independent and have no common parent. The Verbund contract makes VBW responsible for the group's capital, liquidity and risk management as well as strategic decisions and their implementation, including products and pricing. The member banks are obliged to place their excess liquidity at VBW.

We believe the Verbund contract adequately addresses the risk-management weaknesses that allowed OeVAG's pre-crisis shortcomings, including flawed lending decisions, ill-timed acquisitions and excessive asset growth, which led to large losses in 2008-2014.

Restructured Mutual Support Scheme Increases Cohesion and Reactivity

Volksbanken Leistungsfonds (VL), a fund endowed with trust assets to support troubled member banks, became operative in 2016. The CO calculates VL's target endowment based on the member banks' average risk position. We expect the endowment to rise at least to EUR100 million by 2021 from currently EUR80 million. In our view, this should be sufficient to recapitalise member banks other than VBW in a reasonable idiosyncratic stress scenario, but it is unlikely to ensure a substantial line of defence for the group in a systemic crisis.

Economic Forecasts

Austria (%)	2019f	2020f	2021f
Real GDP growth	1.6	1.5	1.7
Unemployment rate	4.6	4.8	4.8
General government debt/GDP	70.1	67.3	64.3
Consumer price growth	1.5	1.7	2.0

Source: Fitch Ratings

Mutual Support and Liquidity Scheme

VOLKSBANK WIEN AG
Central institution, also takes on responsibilities of the mutual support scheme pursuant to the Verbund contract;

- Exercises control functions
- Board of CO can give binding instructions to the group as a whole or individual primary banks

↓

7 member banks
1 specialised bank

Volksbanken Leistungsfonds (VL)
Trust fund for support measures

Source: Fitch Ratings

If the CO estimates that VL is insufficient to cover support needs as these arise, it can call unilaterally for additional contributions from the member banks. The Verbund contract does not cap each member bank's maximum contributions to mutual support measures. The mutual support framework allows the CO's management to impose remedial actions on troubled member banks if early-warning indicators (macroeconomic, market-based or breaches of capital, liquidity, profitability or asset-quality ratios) deteriorate materially. Such interventions are possible without the consent of the bank concerned or preliminary consultation with the group's members. This is rating positive as it increases cohesion, discipline and reactivity.

Improved Risk Controls; Modest Market Risk in Line with Domestic Peers

The restructuring has tightened VB-Verbund's risk appetite and underwriting standards, which we view as robust in light of its simplified retail-focused business model. Risk controls strongly benefit from the centralised risk-management functions at VBW, the standardised product offering and the simplified organisational structure. The group is also strengthening its internal data quality, which makes day-to-day management and reporting more effective.

After years of restructuring and disposal of non-core activities, loan growth resumed in 2017 and slightly exceeded the banking sector's growth in 2018. However, the group's low risk appetite and improved risk management make an erosion of its underwriting standards to compensate the low growth potential of the mature Austrian market unlikely. Foreign growth should remain immaterial as the group limits foreign exposure, mainly to Germany, to 5% of the total.

Structural interest-rate risk in the member banks' banking books is VB-Verbund's main source of market risk, primarily driven by the mismatch between its mainly short-term deposits and its long-term mortgage loans. This is mitigated by the fact that, similar to its Austrian peers, the majority of retail loans in the group's back book carry variable rates. Austrian banks' new mortgage lending has been predominantly on a fixed-rate basis in the past few years, effectively transferring interest-rate risk to the lenders from the borrowers. When the banks hedge this risk, the hedging costs tend to compound the prevailing margin pressure.

Summary Financials and Key Ratios

	30 June 2019 Interim (EURm)	31 December 2018 Year end (EURm)	31 December 2017 Year end (EURm)	31 December 2016 Year end (EURm)
Summary income statement				
Net interest & dividend income	211	420	443	423
Net fees & commissions	115	234	237	240
Other operating income	31	11	-1	81
Total operating income	356	664	679	743
Operating costs	272	568	586	676
Pre-impairment operating profit	84	96	94	68
Loan & other impairment charges	-4	-6	52	92
Operating profit	89	102	42	-25
Other non-operating items (net)	40	21	-1	-60
Tax	7	8	-21	-5
Net income	122	115	61	-80
Summary balance sheet				
Gross loans	21,160	20,795	19,769	19,386
Of which impaired	n.a.	633	839	837
Loan-loss allowances	283	293	362	398
Net loans	20,877	20,502	19,407	18,988
Interbank	515	470	495	643
Derivatives	143	127	160	207
Other securities & earning assets	2,824	2,718	2,541	2,574
Total earning assets	24,359	23,817	22,602	22,412
Cash & due from banks	1,600	1,732	2,001	1,436
Other assets	707	1,016	720	619
Total assets	**26,666**	**26,564**	**25,323**	**24,466**
Customer deposits	21,234	21,555	20,850	20,018
Interbank & other short-term funding	513	595	550	523
Other long-term funding	1,519	1,037	1,048	1,002
Trading liabilities & derivatives	527	455	464	588
Total funding	23,792	23,643	22,911	22,131
Other liabilities	569	940	514	455
Pref. shares & hybrid capital	103	126	145	188
Total equity	2,202	1,855	1,753	1,693
Total liabilities & equity	**26,666**	**26,564**	**25,323**	**24,466**
Ratios (annualised as appropriate)				
Profitability				
Operating profit/RWAs	1.2	0.7	0.3	-0.2
Net interest income/average earning assets	1.8	1.8	2.0	1.8
Non-interest expense/gross revenue	76.3	87.1	85.2	91.0
Net income/average equity	12.1	6.4	3.6	-4.5
Asset quality				
Impaired loans/gross loans	n.a.	3.0	4.2	4.3

Summary Financials and Key Ratios (Cont.)

	30 June 2019 Interim (EURm)	31 December 2018 Year end (EURm)	31 December 2017 Year end (EURm)	31 December 2016 Year end (EURm)
Loans growth	1.8	5.2	2.0	-14.3
Loan-loss allowances/impaired loans	n.a.	46.2	43.1	47.6
Loan impairment charges/average gross loans	0.0	0.0	0.2	0.4
Capitalisation				
Fitch Core Capital ratio	13.5	12.3	12.8	12.5
CET 1 ratio	12.8	12.1	12.4	12.4
Tangible common equity ratio	7.5	6.8	6.7	6.8
Basel leverage ratio	7.6	6.4	6.2	12.9
Unreserved impaired loans/FCC	n.a.	19.0	28.2	26.6
RWAs/total assets	54.8	54.9	52.2	54.2
Funding & liquidity				
Loans/customer deposits	99.7	96.5	94.8	96.8
Customer deposits/funding	90.9	92.5	92.3	92.1
LCR	n.a.	133.0	138.0	112.0
NSFR	127.2	125.9	130.0	n.a.

Source: Fitch Ratings, Fitch Solutions, VR-Verbund

Key Financial Metrics – Latest Developments

New Cost-Cutting Programme Should Support Modest Performance

At end-2018, the management launched a new restructuring plan to reduce the cost/income ratio from 85% to 60% in the medium term. We believe VB-Verbund has significant headroom to reduce back-office staff, further centralise and digitalise processes and standardise products and services. However, the ECB's latest rate cut could pose a significant challenge to the group's net interest income growth ambitions. Mitigating the pressure on interest margins through loan growth will become harder if the economic outlook weakens. We also believe that the 60% cost/income ratio target requires a significant improvement in commission income, which could be difficult in the competitive Austrian banking market.

Management targets net income in the low nine-digit range for 2019, which we expect to remain resilient in the medium term as risk costs should remain manageable given the group's low-risk domestic business model. The proceeds from the sale of the subsidiaries in Switzerland (EUR15 million) and Liechtenstein (EUR44 million) significantly inflated the 2018 and 1H19 results.

Higher Capital Requirements Come on Top of Modest Earnings Retention

In 2019, VB-Verbund initiated capital enhancing measures to mitigate a regulatory reclassification of commercial real estate loans at end-2018 that reduced its CET1 capital ratio by 70bp. We expect a limited impact from Basel IV as the group uses the standardised approach to assess credit risk.

The group's efforts to strengthen its regulatory capitalisation complicate its aim to accelerate the repayment of its remaining state capital. The Austrian government was granted a profit participation right (Genussrecht) and a blocking minority (25% plus one share) in VBW as part of the restructuring in 2015. The government will return its stake to VBW's other owners once VB-Verbund has repaid the EUR225 million still outstanding, based on a binding schedule until 2023. This repayment obligation will continue to significantly limit organic capital generation in the next few years. This is mitigated by the restriction of dividend payments until the state capital is fully repaid.

Medium-Term Management Targets

Cost/income ratio (%)	60
CET1 ratio (%)	> 12.25
Total capital ratio (%)	> 16
NPL ratio (%)	< 3
Return on equity (%)	8

Source: Fitch Ratings, VB-Verbund

CET1 Requirements (%)

Year	2018	2019	2020
Pillar 1R	4.5	4.5	4.5
Pillar 2R	2.5	2.75	2.5
Combined buffer	2.125	3.0	3.5
Total requirement	9.125	10.25	10.5
Pillar 2 guidance	1.8	1.0	1.0

Source: Fitch Ratings, VB-Verbund

Access to Capital Market Funding Fully Restored

VBW issued its initial EUR220 million additional Tier 1 capital notes in 1H19. Together with Tier 2 notes issued in 4Q17, this improved VB-Verbund's total capital ratio to 17.9% at end-1H19 from 14.7% at end-1H17. The ECB has yet to communicate its minimum requirement for own funds and eligible liabilities (MREL) to the group, but we expect its relatively large junior debt buffer to cover a potential subordination requirement. We also expect that VBW will issue senior preferred debt over the next years to fill the gap between its subordination and MREL requirements, as well as senior non-preferred debt to replace maturing Tier 2 notes.

With VBW's help, the member banks have strengthened data quality over the past few years to improve the covered bond eligibility of their sizeable stock of granular Austrian housing loans. This has helped the group to significantly diversify its funding mix beyond its still dominant and resilient pool of granular deposits from domestic retail and small SME clients.

Asset Quality Continues to Improve

The group's NPL ratio continued to improve in 2018 and 1H19 on the back of the favourable Austrian economic environment, low interest rates and loan growth. We expect the stock of legacy NPLs to further diminish and the NPL ratio to remain below the 3% management target in the medium term, considering the group's focus on granular retail mortgage and SME lending, which were 40% and 52%, respectively, of customer loans at end-2018. This drives the positive outlook on the asset-quality score. The internal rating distribution of SME and corporate clients further improved in 2018. Austrian SMEs have built up material capital and liquidity buffers over almost a decade of economic recovery. Therefore, we believe they are adequately prepared for the next cyclical downturn.

VB-Verbund is gradually reducing its exposure to its legacy Swiss franc-denominated mortgage loan portfolio, which was about two thirds of the group's CET1 at end-2018. This portfolio remains indirectly exposed to an appreciation of the franc against the euro as this could impair borrowers' debt-service capacity and could be amplified by the high share of bullet structures. In our view, this is adequately mitigated by the portfolio's solid asset quality (generally resilient borrowers and rising property valuation helped by the robust economy) and endowment contracts (mostly life insurance policies) pledged as collateral.

Exposure to commercial and residential real-estate sector accounts for 25% of the group's customer loans, but over half of this exposure is to small housing companies and cooperatives, which we view as lower risk.

Sovereign Support

VB-Verbund's Support Rating and Support Rating Floor reflect Fitch's view that senior creditors can no longer rely on full extraordinary state support. This is driven by the EU's Bank Recovery and Resolution Directive, which has been in force in Austria since 2015.

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		✓	

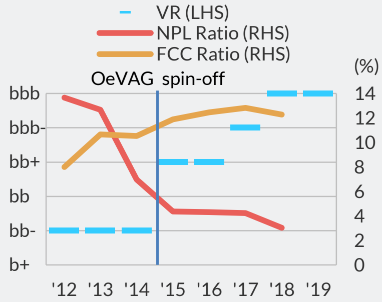
State Capital Binding Repayment Schedule

(Cumulated targets by year-end)

2019	EUR75m
2021	EUR200m
2023	EUR300m

Source: Fitch Ratings, VB-Verbund

Asset Quality and Capitalisation Drive VR



Source: Fitch Ratings, VB-Verbund

FitchRatings **Volksbanken-Verbund** — **Banks** Ratings Navigator

Credit-Relevant ESG Derivation

Volksbanken-Verbund has 5 ESG potential rating drivers

- Volksbanken-Verbund 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.

			Overall ESG Scale
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	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	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	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	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

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 left-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 the [number of] general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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

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 ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.