FitchRatings

Banks
Universal Commercial Banks
Sweden

Svenska Handelsbanken AB

Key Rating Drivers

Very Strong Credit Profile: Svenska Handelsbanken AB's ratings reflect its ability to generate strong and resilient earnings with minimal credit losses through the cycle. Its stable and traditional low-risk business model and its operations in Sweden and Norway, which Fitch Ratings considers among the strongest operating environments for banks, underpin its financial profile and balance its material wholesale-funding requirements. The bank's very strong risk profile drives the one-notch positive adjustment to its 'aa-' implied Viability Rating (VR).

Stable and Risk-Averse Business Model: Handelsbanken has a strong record of operating with a very low risk appetite in its home markets. Its largest operations are in Sweden, but it also considers Norway, the UK and the Netherlands as its home markets. The bank focuses on maintaining tight business relationships with low-risk customers. This strategic focus and the strong operating environments in its home markets have allowed it to generate strong risk-adjusted earnings with low loan impairment charges (LICs) through numerous credit cycles.

Low-Risk Culture: Fitch believes Handelsbanken's prudent risk appetite and long-term strategic approach make it particularly resilient to downturns and is underscored by its outstanding asset quality through many credit cycles. The bank consistently applies more conservative underwriting standards than global industry practice, maintains zero tolerance for credit losses and ensures high loan book collateralisation. The bank's strong customer relationships allow swift remedial actions should problems arise.

Resilient and Strong Asset Quality: Handelsbanken's asset quality has been resilient in the current economic uncertainty, and Fitch expects it to remain very strong, despite its material exposure to the commercial real estate sector. We expect Handelsbanken's impaired loans ratio (end-2024: 0.4%) to remain flat in the medium term.

Robust and Stable Profitability: Handelsbanken's profitability benefits from healthy revenue generation, high efficiency and exceptionally low and stable LICs. We expect profitability to decline slightly from the strong levels in 2024 as interest rates are cut, but it should remain robust, supported by high cost efficiency and low LICs. We forecast the bank's operating profit to ease towards 3.5% of risk-weighted assets (RWAs) in 2025 (2024: 4.2%).

Strong Capitalisation: Handelsbanken has maintained strong risk-weighted capital ratios, with a common equity Tier 1 (CET1) ratio of 18.8% at end-2024. We expect the CET1 ratio to remain above 16% in the long term, given the bank's capital targets. Handelsbanken's only moderate leverage ratio and fairly small capital base, compared with those of international banks rated in the 'aa' category, are offset by historically low LICs, an overall low risk profile and robust internal capital generation.

Wholesale Funded, Strong Liquidity: Handelsbanken remains reliant on wholesale funding, similar to its Nordic peers, which reflects a well developed covered bond market matching mortgage lending and a structural deposit shortage in Sweden. The bank also uses its geographically diversified funding platform to tap international bond markets, which are used to fund non-domestic lending and meet regulatory requirements. The bank's refinancing risk is well controlled due to evenly balanced maturities and prudent liquidity management.

Ratings

Foreign Currency	
Long-Term IDR	AA
Short-Term IDR	F1+
Derivative Counterparty Rating	AA+(dcr)
Viability Rating	aa
Government Support Rating	ns
Sovereign Risk (Sweden)	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Highest ESG Relevance Scores

Environmental	2
Social	3
Governance	3

Applicable Criteria

Bank Rating Criteria (March 2025)

Related Research

Fitch Affirms Svenska Handelsbanken at 'AA'; Outlook Stable (May 2025)

Global Economic Outlook (April 2025)

Fitch Affirms Sweden at 'AAA'; Outlook Stable (October 2024)

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Rating Sensitivities

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

Handelsbanken's high ratings have limited rating headroom to absorb potential pressure on its credit profile. We may downgrade the rating on weaker assessment of the bank's risk profile, which could be driven by a deteriorating operating environment in Sweden or a shift in the bank's low-risk culture. Such changes could undermine the bank's ability to generate strong risk-adjusted earnings.

We would also likely downgrade the bank if we expect its impaired loans ratio to increase durably above 1% without clear prospects of a swift improvement, the CET1 ratio to fall below 16% or operating profit to decline below 3% of RWAs on a sustained basis.

Pressure on Handelsbenken's ratings could also come from an adverse change in investor sentiment materially affecting the bank's access to debt markets. However, we do not believe this is likely.

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

An upgrade is unlikely in light of the bank's high ratings unless it substantially strengthens its franchise through wider geographic and borrower diversification without compromising its strong asset quality and profitability.

Other Debt and Issuer Ratings

Rating Level	Rating
Deposits and senior preferred debt	AA+/F1+
Senior non-preferred	AA
Tier 2 subordinated debt	A+
Additional Tier 1 notes	A-

Source: Fitch Ratings

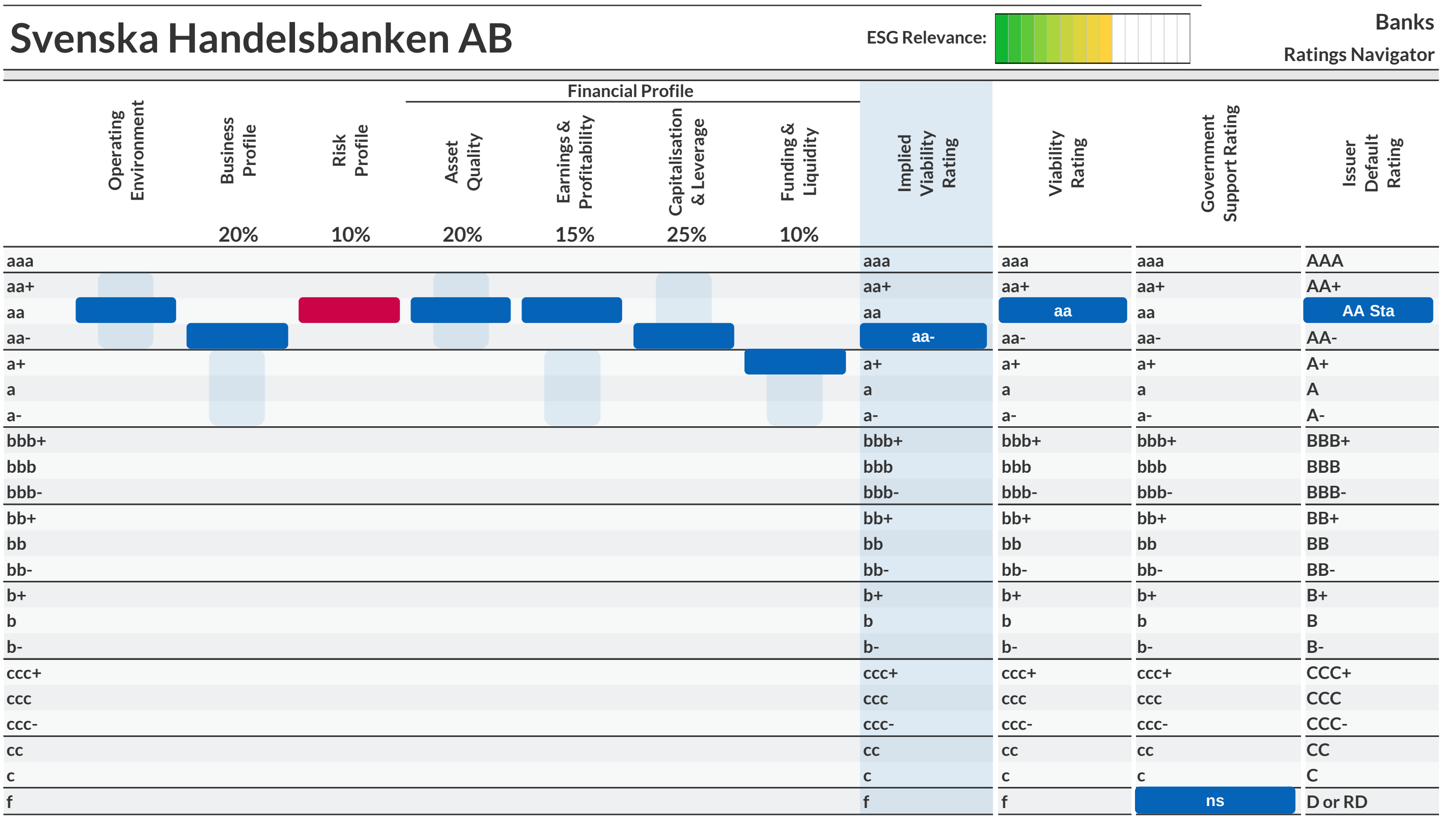
Handelsbanken's long-term senior preferred debt and deposit ratings of 'AA+', and Derivative Counterparty Rating of 'AA+(dcr)' are one notch above its Long-Term IDR. This reflects the protection we expect will accrue to deposits and senior preferred debt from the bank's junior bank resolution debt and equity buffers. The short-term senior preferred debt and deposit ratings of 'F1+' are the only option mapping to their respective long-term ratings.

We expect Handelsbanken's buffer of subordinated and senior non-preferred debt to be comfortably above 10% of RWAs in the long term. At end-March 2025, the buffer was above 12%. For the same reason, its long-term senior non-preferred debt is equalised with the Long-Term IDR.

Handelsbanken's Tier 2 subordinated debt and additional Tier 1 (AT1) securities are notched down from its Viability Rating (VR). We rate the Tier 2 debt two notches below the VR to reflect their loss severity.

The AT1 securities are four notches below the VR to reflect the loss severity of these securities (two notches) and their high risk of non-performance (two notches). Our assessment is based on the bank operating with a CET1 ratio that is comfortably above maximum distributable amount thresholds and our expectation that this will continue.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The VR of 'aa' is above the 'aa-' implied VR due to the following adjustment reason: risk profile (positive).

Handelsbanken's business profile score of 'aa-' is above the 'a' implied category score due to the following adjustment reasons: business model (positive).

Handelsbanken's earnings and profitability score of 'aa' is above the 'a' implied category score due to the following adjustment reason: earnings stability (positive).

Company Summary and Key Qualitative Factors

Business Profile

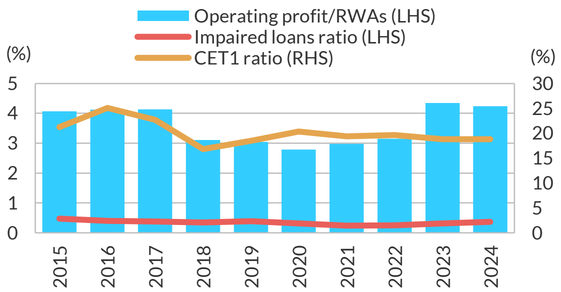
Sweden remains Handelsbanken's largest market. The contribution from the UK operations has increased to above 15% since 4Q22, while contributions from Norway and the Netherlands are much lower. The bank has leading domestic market shares in Sweden of 20%–25% for both household and corporate lending and deposits.

Handelsbanken's decentralised business model allows the vast majority of decision-making at branch level, including also for the bank's largest customers. Each branch bears full responsibility for its local market and operates with a high level of autonomy and individual responsibility, within a strong centralised risk-management framework. Other key business profile strengths are the bank's long-term view and strong execution, with limited variability of profitability.

The bank focuses on affluent customers and its consistent strategy is based on better return on equity, higher customer satisfaction and higher cost-effectiveness than its local peers' average. The only binding financial target for the bank is to be more profitable than peers, which is mainly achieved by a strict zero credit loss policy, outstanding customer satisfaction, and strong cost efficiency.

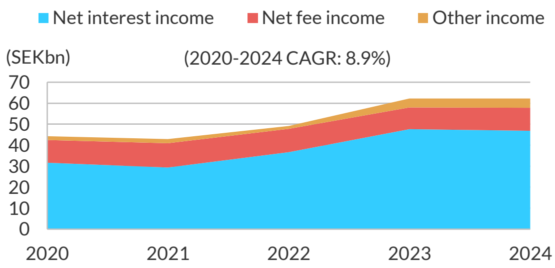
Since 2022, the bank has exited two Nordic countries, Denmark and Finland. The reduced Nordic footprint is neutral for the bank's business profile because the profit contribution from both markets was modest. We expect the bank to continue to demonstrate strong execution skills as it focuses on increasing its savings business, further strengthening its cost efficiency and on improving the performance of its Norwegian operations. The latter is reflected in an improving return on allocated capital of 10.2% in 1Q25 (1Q24: 7.2%).

Performance Through the Cycle



Source: Fitch Ratings, Fitch Solutions, SHB

Revenue Breakdown



CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, SHB

Risk Profile

Handelsbanken has a strong group-wide risk-management framework, prudent underwriting, robust risk and reporting tools, and conservative risk limits. Credit risk is the main source of risk and is mainly concentrated in the loan book, which accounts for about 65% of assets.

The bank's tight credit controls and underwriting model are applied consistently in all branches. The initial credit decision is taken by the branch managers, but larger loans are decided at the head office. The responsibility for all loans, including those approved at a higher level, rests with branch managers and is backed by strict centralised controls. Each branch is responsible for dealing with problems arising in its specific areas, and each is viewed as an independent bank. The bank's emphasis on low-risk borrowers and secured lending has resulted in consistently very low LICs.

Underwriting is based on conservative assessments of repayment capacity. The share of collateralised lending is above 90% of the loan book, and collateral predominantly comprises real estate with prudent loan-to-value (LTV) ratios at origination.

In line with its Nordic peers, Handelsbanken has significant exposure to CRE, which, at end-March 2025, accounted for about 30% of its loan book. The largest proportion of CRE exposure is in Sweden (42%), but exposure to Norway (31%), the UK (22%) and the Netherlands (5%) provides diversification. Despite the fairly high exposure to CRE, we expect credit losses to remain very low given the bank's underwriting criteria, which, for a long time, have been based on borrowers' repayment capacity under stressed scenarios.

Handelsbanken's business model implies organic growth to safeguard the quality of its portfolio. We expect the bank to continue its policy of cautious lending given the still-challenging environment. Outside of Sweden, the bank is likely to remain a challenger, which allows it to concentrate on low-risk borrowers while still being able to gradually expand the loan book.

Financial Profile

Asset Quality

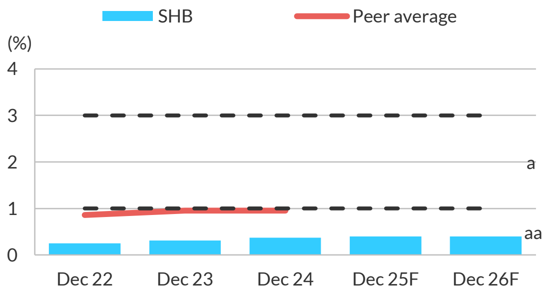
Handelsbanken has a long record of strong asset quality. Its gross impaired loans ratio peaked at 0.6% in 2010. Asset quality was resilient in 2024, and the impaired loans ratio stabilised at 0.4% at end-2024. The bank reported net releases of LICs in 2024 and continued to do so in 1Q25, in part driven by the release of management overlays. We expect Handelsbanken's underlying LICs of 2bp in 2025–2026 to remain materially lower than those of international peers due to its conservative client selection and robust collateralisation.

The resilient retail lending (0.4% impaired loans ratio at end-March 2025) is dominated by low-risk residential mortgage loans. We believe that Nordic households' financial situation is strong and their interest rate sensitivity, while significant, is manageable, underpinned by stable unemployment levels. The bank had already been stress-testing retail customers' repayment capacity in the event of a material rise in interest rates before the recent increases, and interest rate cuts will reduce households' debt repayment burden.

Lending to property-management companies is almost equally split between commercial and residential real-estate. The impaired loans ratio remained low at 0.38% at end-March 2025 (end-March 2023: 21bp). We expect less pressure in this segment in the coming quarters, particularly in Sweden, as refinancing risks for property companies came down along with lower central bank rates. Asset quality also benefits from robust collateralisation, indicated by a low 45% average LTV ratio for Swedish commercial real estate lending.

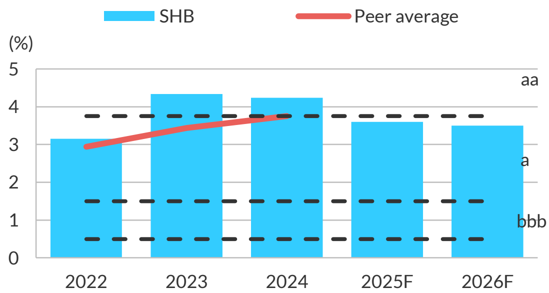
We believe that SHB's asset quality is less directly affected by geopolitical tensions and disruptions in trade flows compared with larger international peers', given that the vast majority of SHB's exposure is linked to property.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Handelsbanken's resilient profitability through the cycle is underpinned by its highly successful and traditional business model, stable revenue generation, efficient operations and muted credit losses through credit cycles. The bank's healthy earnings compare well with highly rated peers'. We expect earnings volatility will remain low given only modest LICs – even in an economic downturn.

Handelsbanken's 1Q25 operating profit slightly decreased to 4.1% (2024: 4.2%), as its net interest income declined due to lower interest rates and weak loan demand. Results were supported by tight cost management, as operating expenses came down by 6% yoy and by reversal of LICs.

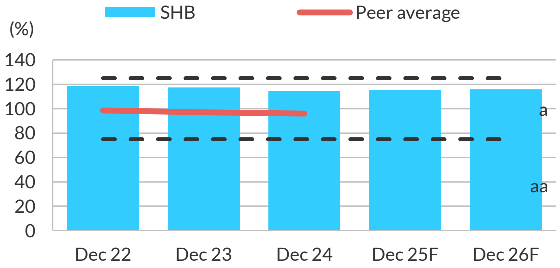
We expect further pressure on net interest margins in the remainder of 2025 due to lower interest rates in Sweden and only moderate business growth amid a challenging operating environment, that will put further pressure on revenue generation. Fees and commissions and trading income will likely be unchanged, and we expect this to result in the operating profit/RWAs ratio falling to about 3.5% in 2025. We expect profitability to remain sound, despite weakening from the strong results in 2023–2024 as it will be supported by measures to further strengthen cost efficiency and maintain low LICs.

Capitalisation and Leverage

Handelsbanken's risk-weighted capital ratios are strong and sufficient to absorb significant unexpected losses. We expect Handelsbanken to continue to maintain a healthy capital buffer to uphold debt investor confidence. The bank's Basel III leverage ratio of 4.6% at end-March 2025 is low compared to highly rated peers, but still acceptable in light of the bank's historically low LICs, overall low risk profile and robust internal capital generation.

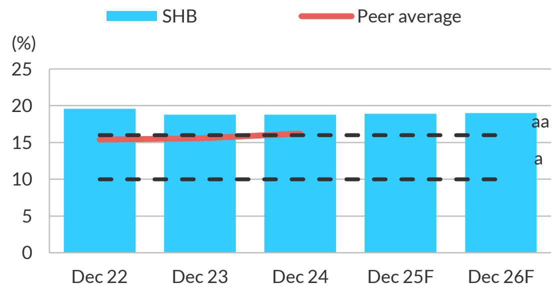
Reported risk-weighted capital ratios are supported by low risk-weights under the internal ratings-based approach, reflecting a historically low risk appetite and robust asset-quality metrics. The bank has a long-term CET1 target of 15.9%–17.9%. At end-March 2025, the CET1 ratio was 50bp above its long-term target, offering 350bp capital surplus over the regulatory minimum of 14.9%.

Gross Loans/Customer Deposits+Covered Bonds



Source: Fitch Ratings, Fitch Solutions, banks

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Handelsbanken's reliance on wholesale funding is offset by the strength of the domestic covered bond market, which benefits from a captive investor base and has generally remained operational during periods of market disruption. Because of the strength of the covered bond market in most of Handelsbanken's home markets, we use the alternative core metric 'gross loans/customer deposits + covered bonds' as a primary indicator for the bank's funding and liquidity, which was 106% at end-March 2025.

The bank also has good access to the unsecured market. We expect the gross loans/deposits ratio (160% at end-March 2024) to moderately increase as quantitative tightening in Sweden continues, leading to pressure on customer deposits in the banking sector.

Handelsbanken's deposits, which made up about 41% of funding at end-March 2024, are well-diversified geographically, and stable due to its relationship-based business model. The remaining funding mainly comprises covered bonds (about 20%), commercial paper and other short-term funding (20%) and senior bonds (9%).

At end-March 2025, Handelsbanken's liquidity portfolio amounted to SEK948 billion of liquid assets (26% of assets) and was well diversified by currency. The buffer mostly comprises cash and cash equivalents or highly rated and fair-valued debt securities. Handelsbanken can also generate liquidity through the issuance of covered bonds using unused overcollateralisation in the cover pool.

About Fitch Forecasts

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 Credit Agricole (VR: a+), Royal Bank of Canada (aa-), Bank of Montreal (aa-), DBS Group Holdings Ltd (aa-), JPMorgan Chase & Co. (aa-), National Australia Bank Limited (a+). Financial year (FY) end for all banks is 31 December unless otherwise stated. FY end for Royal Bank of Canada, Bank of Montreal is 31 October. FY year end for National Australia Bank Limited is 30 September. Latest average uses FY24 data for Credit Agricole, Royal Bank of Canada, Bank of Montreal, DBS Group Holdings Ltd, JPMorgan Chase & Co., National Australia Bank Limited.

Financials

Financial Statements

	31 Dec 24 12 months (SEKm)	31 Dec 23 12 months (SEKm)	31 Dec 22 12 months (SEKm)	31 Dec 21 12 months (SEKm)
Summary income statement				
Net interest and dividend income	46,857	47,581	36,627	29,393
Net fees and commissions	10,950	10,465	11,103	11,458
Other operating income	4,535	4,203	1,462	2,102
Total operating income	62,343	62,249	49,192	42,953
Operating costs	27,940	25,806	23,607	19,843
Pre-impairment operating profit	34,403	36,443	25,585	23,110
Loan and other impairment charges	-601	141	49	43
Operating profit	35,004	36,302	25,536	23,067
Other non-operating items (net)	247	1,229	1,363	1,103
Tax	7,795	8,417	5,429	4,627
Net income	27,456	29,114	21,470	19,543
Other comprehensive income	2,412	-2,447	2,046	7,313
Total comprehensive income	29,868	26,667	23,516	26,856
Summary balance sheet				
Assets				
Gross loans	2,281,510	2,276,799	2,305,355	2,151,925
– Of which impaired	8,525	7,064	5,716	5,232
Loan loss allowances	1,609	2,395	2,454	2,439
Net loans	2,279,900	2,274,404	2,302,901	2,149,486
Interbank	20,195	15,953	14,015	10,873
Derivatives	40,671	20,453	19,645	26,608
Other securities and earning assets	552,976	534,035	404,751	415,341
Total earning assets	2,893,741	2,844,845	2,741,312	2,602,308
Cash and due from banks	529,996	476,171	475,868	291,584
Other assets	115,437	216,776	236,536	452,872
Total assets	3,539,173	3,537,792	3,453,716	3,346,764
Liabilities				
Customer deposits	1,310,631	1,298,363	1,325,056	1,286,424
Interbank and other short-term funding	699,541	729,563	709,006	602,456
Other long-term funding	962,008	913,062	874,315	853,303
Trading liabilities and derivatives	16,963	36,602	30,980	17,889
Total funding and derivatives	2,989,143	2,977,590	2,939,355	2,760,072
Other liabilities	330,190	340,998	302,748	391,448
Preference shares and hybrid capital	9,813	14,119	15,583	13,513
Total equity	210,027	205,085	196,030	181,731
Total liabilities and equity	3,539,173	3,537,792	3,453,716	3,346,764
Exchange rate	USD1= SEK11.0299	USD1= SEK10.1812	USD1= SEK10.4273	USD1= SEK9.1164

Source: Fitch Ratings, Fitch Solutions, Handelsbanken

Key Ratios

(%)	31 Dec 24	31 Dec 23	31 Dec 22	31 Dec 21
Profitability				
Operating profit/risk-weighted assets	4.2	4.3	3.2	3.0
Net interest income/average earning assets	1.6	1.7	1.4	1.1
Non-interest expense/gross revenue	44.8	41.5	48.0	46.3
Net income/average equity	13.7	14.8	11.5	11.0
Asset quality				
Impaired loans/gross loans	0.4	0.3	0.3	0.2
Growth of gross loans	0.2	-1.2	7.1	-4.8
Loan loss allowances/impaired loans	18.9	33.9	42.9	46.6
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.0
Capitalisation				
Common equity Tier 1 capital ratio	18.8	18.8	19.6	19.4
Fully loaded common equity Tier 1 capital ratio	-	-	-	-
Fitch core capital ratio	-	-	-	-
Tangible common equity/tangible assets	5.7	5.6	5.5	5.2
Basel leverage ratio	4.9	5.1	5.2	5.0
Net impaired loans/common equity Tier 1	4.5	3.0	2.1	1.9
Net impaired loans/Fitch core capital	-	-	-	-
Funding and liquidity				
Gross loans/customer deposits	174.1	175.4	174.0	167.3
Gross loans/customer deposits + covered bonds	114.3	117.5	118.4	112.7
Liquidity coverage ratio	183.4	210.0	159.0	149.0
Customer deposits/total non-equity funding	43.9	43.9	45.3	46.6
Net stable funding ratio	123.6	120.0	114.0	114.0

Source: Fitch Ratings, Fitch Solutions, Handelsbanken

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)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Handelsbanken's Government Support Rating (GSR) of 'no support' (ns) reflects Fitch's view that senior creditors cannot rely on receiving full extraordinary support from the sovereign if the bank becomes non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that will require senior creditors to participate in losses instead of a bank receiving sovereign support.

Subsidiaries and Affiliates

Subsidiaries' Ratings

Rating level	Stadshypotek AB (publ)	Handelsbanken Plc
Long-Term Issuer Default Rating	AA/Stable	AA/Stable
Short-Term Issuer Default Rating	F1+	F1+
Viability Rating	aa	-
Government Support Rating (GSR)	ns	-
Shareholder Support Rating (SSR)	-	aa

Source: Fitch Ratings

Handelsbanken and Stadshypotek, its mortgage-lending subsidiary, share a group VR, reflecting Stadshypotek's close integration within the group and our view that the failure risk of the two entities is substantially the same. Consequently, Stadshypotek's IDRs are aligned with those of Handelsbanken. The GSR of 'ns' reflects the prevailing resolution regime in Sweden.

The IDRs and Shareholder Support Rating of Handelsbanken Plc, the UK-based wholly owned subsidiary, are equalised with Handelsbanken's ratings, reflecting Fitch's view of an extremely high probability of support from the parent for its UK subsidiary. The UK subsidiary is an integral part of Handelsbanken, operating in one of the group's home markets. In addition, Fitch believes a default of the UK subsidiary would create significant reputational risk for the group, particularly given the former's reliance on wholesale funding.

We do not assign a VR to Handelsbanken Plc, as its strong integration with its parent and its importance within the Handelsbanken group mean it cannot be meaningfully analysed on a standalone basis.

Environmental, Social and Governance Considerations

FitchRatings **Svenska Handelsbanken AB**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Svenska Handelsbanken AB has 5 ESG potential rating drivers

- Svenska Handelsbanken AB 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.

			ESG Relevance to Credit Rating
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) Relevance Scores

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

Social (S) Relevance Scores

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

Governance (G) Relevance Scores

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

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

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

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

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

CREDIT-RELEVANT ESG SCALE

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

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

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

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