

Basler Kantonalbank

Key Rating Drivers

Support Drives Ratings: Basler Kantonalbank's (BKB) Long-Term Issuer Default Rating (IDR) and Shareholder Support Rating (SSR) are based on support from its majority owner, the Canton of Basel-Stadt, and reflect Fitch Ratings' view of an extremely high probability of timely support, if needed. The canton owns 86% of BKB and holds 100% of its voting rights.

Cantonal Guarantee: The ratings are underpinned by Fitch's view of the canton's creditworthiness and by the cantonal guarantee on BKB's non-subordinated liabilities under a specific cantonal law (the BKB Law). The cantonal guarantee applies to BKB as a legal entity and excludes BKB's operating subsidiaries, notably Bank Cler. However, in practice, Fitch believes that the canton would provide some indirect support to Bank Cler, as Fitch expects the supervisory authorities to require BKB to support Bank Cler in case of failure.

Support Manageable for Canton: BKB's consolidated assets (CHF53 billion at end-2023) are large relative to the canton's GDP (CHF40 billion at end-2021) and budgetary resources, but Fitch believes the bank's stable and resilient business model and its capital buffers mean recapitalisation needs would be manageable for the canton in a realistic stress scenario. This view is underpinned by the canton's strong economic fundamentals, including strong financial flexibility and low debt burden.

Universal Cantonal Bank: BKB's Viability Rating (VR) is based on our assessment of its consolidated profile, and reflects its stable and low-risk business model, albeit with concentration on residential real estate in the Basel region and, via Bank Cler, across Switzerland. Our assessment benefits from low levels of impaired loans and strong capitalisation. It also reflects BKB's small size, modest nationwide franchise, adequate but consistent profitability, and funding.

Large Real Estate Exposure: We view BKB's asset quality as strong, benefitting from conservative underwriting standards in mostly low-risk mortgage lending, which should protect the bank from a meaningful real estate price correction. We expect its impaired loan ratio (end-2023: 0.6%) to remain below 1% in 2024 and 2025. Residential mortgage loans accounted for 75% of the loan book. Non-residential mortgage loans (16%) related mainly to office and commercial spaces, which are higher-risk, and industrial premises.

Stable Profitability: BKB's profitability has been stable, but is modest relative to peers', with an operating profit of 1.1% of risk-weighted assets. We forecast this ratio to decrease slightly to 0.9% in 2024. Net interest income is the main revenue pillar and we expect it to decrease as policy interest rates decline. We expect earnings contribution from fee income to remain broadly stable and loan impairment charges to normalise but to remain low. Operating costs are likely to increase on the back of higher staff costs and continued IT investments.

Strong Capitalisation: BKB's end-2023 common equity Tier 1 (CET1) ratio was 17.8%, comparable with that of domestic peers. The canton expects a dividend from BKB of a minimum of CHF55 million annually averaged over four years' strategy period, although the actual payout is higher (2023: CHF92.6 million). The canton has also agreed that the bank maintains a 3% to 7% buffer over total capital regulatory requirements on an unconsolidated basis.

Stable Funding: BKB's funding benefits from its stable and granular retail deposit base, with a loan/deposit ratio of 130% at end-2023, up from 112% a year ago on the back of lower customer deposits and higher loans. We view the bank's capital-market franchise as weaker than listed Swiss peers', and with some concentration of large institutional deposits and reliance on short-term funding. However, we also believe that funding and liquidity benefit from the bank's cantonal guarantee, and do not expect a further significant increase in the loans/deposits ratio.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+
Viability Rating	a
Shareholder Support Rating	aaa

Sovereign Risk (Switzerland)

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

Applicable Criteria

[Bank Rating Criteria \(March 2024\)](#)

Related Research

[Fitch Affirms Basler Kantonalbank at 'AAA'; Outlook Stable \(July 2024\)](#)
[Fitch Affirms Switzerland at 'AAA'; Outlook Stable \(April 2024\)](#)
[Global Economic Outlook \(June 2024\)](#)
[Swiss Domestically-Focused Banks Enter 2024 From Position of Strength \(January 2024\)](#)

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Rating Sensitivities

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

BKB's IDRs and SSR are primarily sensitive to adverse changes in our assessment of the canton's ability or propensity to support the bank. A material increase in the canton's contingent liabilities, which are dominated by BKB, could put pressure on BKB's IDRs. Contingent liabilities could increase, for instance, because of sustained growth of the bank's balance sheet in excess of the canton's GDP growth or due to a material delay by the canton in promptly addressing a potential capital shortfall at BKB. A deterioration of the canton's creditworthiness would also result in a downgrade of BKB.

BKB's IDRs and SSR are also sensitive to unfavourable changes in its relationship with the canton, particularly if the BKB Law is amended in a way that would weaken the guarantee's effectiveness or cast doubt on the timeliness of support. This could also negatively affect the VR as our assessments of BKB's business profile (notably franchise), and funding and liquidity both include ordinary support. However, we view this scenario as unlikely.

The VR would likely be downgraded on a sharp drop in property prices in Switzerland, resulting in significant asset-quality deterioration, with an impaired loans ratio materially and durably above 2%, and a CET1 ratio below 16%. However, Fitch does not expect a significant house price correction in Switzerland over the next few years.

The rating would also come under pressure if profitability materially deteriorates or if BKB increases its risk appetite, which could be indicated by higher loan growth at the expense of underwriting standards.

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

The Long-Term IDR is at the highest level on Fitch's scale and cannot be upgraded. An upgrade of BKB's VR would require an improved business profile, in particular a more diverse business model, leading to more diversified revenue, together with a record of strengthened profitability and healthy financial metrics, notably capitalisation.

Ratings Navigator

Basler Kantonalbank



Banks
Ratings Navigator

	Operating Environment	Business Profile	Risk Profile	Financial Profile			Implied Viability Rating	Viability Rating	Shareholder Support	Issuer Default Rating
				Asset Quality	Earnings & Profitability	Capitalisation & Leverage				
		20%	10%	20%	15%	25%	10%	aaa	aaa	AAA Sta
aaa								aaa	aaa	AAA Sta
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	ns	D or RD

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 business profile score of 'a-' is above the 'bbb' category implied score due to the following adjustment reason: business model (positive).

The capitalisation and leverage score of 'a+' is below the 'aa' category implied score due to the following adjustment reason: capital flexibility & ordinary support (negative).

Company Summary and Key Qualitative Factors

Business Profile

BKB is Switzerland's fourth-largest cantonal bank and was the ninth-largest bank in the country by total assets at end-2023. Its business model, underpinned by its public service mandate outlined in the BKB Law, focuses on providing financial services to retail and commercial customers in the Canton of Basel-Stadt, supporting the regional economy. However, the group is also active throughout Switzerland through its wholly-owned subsidiary Bank Cler, whose activities are excluded from the cantonal guarantee and are thus not governed by the regional public mandate. Bank Cler accounts for over a third of BKB's consolidated assets and is a nationwide retail and SME bank, focusing predominantly on residential real estate lending.

BKB is well-established in Basel, with strong local mortgage market shares. However, the group's nationwide franchise is modest, with low single-digit market shares in domestic deposits and mortgage loans, reflecting the cantonal bank's local focus and Bank Cler's small size.

BKB's strategic objectives are well-articulated and their stability is ensured by BKB's public service mandate. The current focus lies on sustainability, digitisation, increased efficiencies and process optimisation. The bank aims for profitable growth in its core segments and new niches, with partnerships being an important pillar in its strategy implementation.

Risk Profile

We view BKB's underwriting standards as low-risk and conservative. The BKB Law requires the bank to avoid excessive risk-taking, which has resulted in broadly stable and sound asset-quality metrics. Lending is focused primarily on residential mortgage loans. Average loan-to-value ratios are in line with Swiss peers', but high compared with European peers' due to many clients stopping loan amortisations after target loan-to-value ratios are reached (typically two-thirds). The assumptions used to determine property values are conservative and should effectively protect the bank from losses should there be a meaningful decline in real estate prices. In line with Swiss peers, BKB applies stressed interest rates when calculating loan affordability.

Loan growth has been driven by residential property financing in recent years (+6% in 2023), dominated by investment properties. Non-residential real estate financing increased by 2% in 2023 and remains a fairly small part of the overall loan book (16%).

Market risk is mainly in the form of structural interest rate risk in the banking book, which is appropriately managed through hedging. Trading assets are moderate in proportion to the balance sheet, and are mostly to support client needs.

Financial Profile

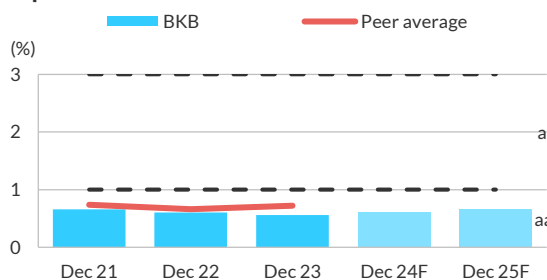
Asset Quality

BKB's asset-quality metrics remain strong, and it has had limited credit losses, due to its focus on low-risk mortgage lending and sound underwriting standards. Low mortgage interest rates relative to the bank's stressed interest rates used for affordability calculations, in combination with a resilient labour market in Switzerland, support credit performance further. The impaired loans ratio declined slightly to 0.56% at end-2023 (2022: 0.6%).

BKB's CHF36.5 billion loan book is dominated by mortgage loans (2023: 91% of gross loans), with about a third of financed properties in the Basel region. Mortgage loans are mostly residential and include a significant share of buy-to-let properties, to both private and professional investors. There are some mortgages to finance office and commercial properties, which are more exposed to structural changes and price corrections, but these are generally extended at lower LTVs. The bank also finances some industrial premises. Other loans are mainly unsecured and relate to corporate and SME borrowers, and are diversified by industry.

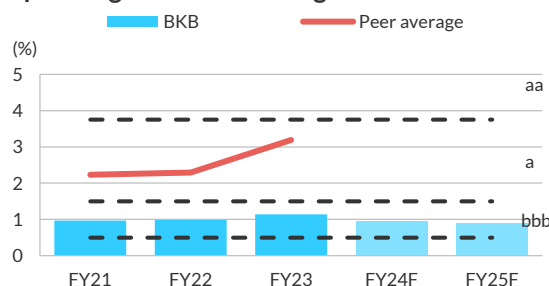
BKB's material real estate exposure means that a sharp drop in prices is a key risk for the bank; we continue to view office and commercial property as vulnerable to a price correction. We believe that a sharp decline in residential property prices is unlikely in the medium term due to strong immigration and lagging supply, but vacancies could increase and prices come under pressure if the economy deteriorates alongside a sharp rise in unemployment and lower immigration. We expect the impaired loans ratio to only slightly increase over the next two years, supported by our expectation of stable policy rates and a strong labour market.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

BKB's revenues are reliant on NII and are less diverse than that of its closest domestic peer, Zuercher Kantonalbank (AAA/Stable/a+). The bank's net income increased by 22% yoy in 2023 to CHF169 million (with other domestically-focused Swiss banks posting similar increases). The main driver behind this increase was NII, which was up 18% yoy due to growth in lending, as well as higher margins as policy rates increased, alongside slow deposit repricing. Net fees and commission income was broadly flat. Trading income increased 8% yoy. Broadly favourable economic conditions in Switzerland in 2023 supported the group's risk position and led to net loan impairment charge (LIC) releases of CHF1.1 million. After being flat in 2021 and decreasing in 2022, operating costs increased by 8% in 2023 on higher project and staff costs. Despite this, the cost/income ratio improved by 2.3pp to 60% (2022: 62%).

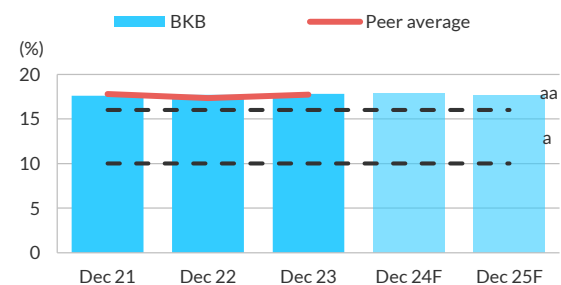
We expect BKB's operating profit to risk-weighted assets (RWAs) ratio to decline this year as lower policy rates negatively affect the NII. We expect trading income contributions to remain modest and a generally stable proportion of fee income. Discretionary wealth management mandates are increasing, but from a low base. BKB's cost/income ratio is high in comparison with European retail banking peers'. Although the bank is further streamlining processes and simplifying operations, its public service mandate and its commitment to maintain a dense branch network is likely to keep the cost base heavier and less flexible than that of peers without such a mandate. We expect 2024 LICs to increase, although that they will remain low, helped by robust economic conditions, including a resilient labour market, and low interest rates compared with affordability stress rates used by the bank.

Capital and Leverage

BKB's capital ratios are high compared with European peers' and in line with domestic peers'. This is despite BKB's higher RWA density due to the bank's standardised approach for calculating credit-risk RWAs, which it plans to maintain. BKB's total capital ratio increased to 18.7% at end-2023 on higher regulatory capital, and is comfortably above the 13% regulatory minimum requirement.

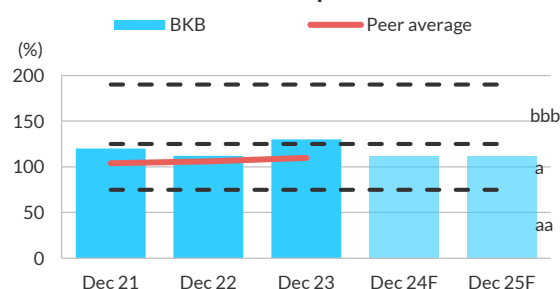
Reserves for general banking risks and retained earnings accounted for almost 90% of BKB's capital at end-2023. The remaining 10% comprised mainly BKB's CHF304 million endowment capital, provided by the canton for an unlimited period and CHF50.2 million listed profit participation notes (without voting rights). BKB can draw a further CHF46 million endowment capital from the canton – an arrangement that has been in place since 2000. Any additional increase is subject to the approval of the canton's parliament. The BKB Law also states that participation capital cannot exceed the level of outstanding endowment capital, limiting BKB's ability to raise equity capital on the market.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

BKB's funding profile is underpinned by its large, and mainly retail, customer deposit base, which forms more than half of its total liabilities and equity. There is some concentration of institutional and corporate deposits at the parent bank, which occasionally drives loan/deposit ratio (LDR) fluctuations. Thus, a decrease of customer deposits at the parent bank in 2023 and higher lending volumes resulted in a loans-to-deposits ratio of 130% at end-2023. We do not expect it to increase much further.

The parent bank and Bank Cler are funded separately, with limited intragroup funding. BKB issues covered bonds regularly via the Pfandbriefzentrale der schweizerischen Kantonalbanken AG and last year also issued two senior unsecured bonds. Its wholesale funding access benefits from the bank's strong financial profile and the cantonal guarantee covering most of its liabilities. Funding is predominantly in Swiss francs and is fairly reliant on short-term funding; wholesale maturity volumes in the next five years are manageable.

BKB's large portfolio of high-quality liquid assets (end-2023: CHF7.7 billion) mainly comprises Swiss National Bank sight deposits, cash holdings and Swiss covered bonds held as financial investments. BKB's liquidity coverage ratio remained resilient at 140% and the net stable funding ratio (end-2023: 123.1%) was comfortably above the 100% regulatory requirement.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per the agency's *Bank Rating Criteria*. They are based on a combination of Fitch's macroeconomic forecasts, outlook of the sector 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 Zuercher Kantonalbank (VR: a+), Raiffeisen Group (a+), UBS Switzerland AG (a), Santander UK Group Holdings plc (a), de Volksbank N.V. (a-), Swedbank AB (aa-).

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(CHFm)	(CHFm)	(CHFm)	(CHFm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	538	459.5	388.9	370.4	353.9
Net fees and commissions	157	134.1	135.0	134.6	125.9
Other operating income	94	80.4	74.3	84.8	60.5
Total operating income	789	674.0	598.2	589.8	540.3
Operating costs	467	399.0	368.0	371.2	372.3
Pre-impairment operating profit	322	275.0	230.2	218.6	168.0
Loan and other impairment charges	-1	-0.9	-0.9	-3.6	10.7
Operating profit	323	275.9	231.1	222.2	157.3
Other non-operating items (net)	-106	-90.8	-78.6	-90.0	-35.7
Tax	18	15.7	13.2	11.1	13.3
Net income	198	169.4	139.3	121.1	108.3
Other comprehensive income	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch comprehensive income	198	169.4	139.3	121.1	108.3
Summary Balance Sheet					
Assets					
Gross loans	42,704	36,499.0	34,976.9	33,456.3	32,805.4
- Of which impaired	240	204.9	211.2	222.4	110.3
Loan loss allowances	230	196.2	202.2	211.3	205.2
Net loans	42,474	36,302.8	34,774.7	33,245.0	32,600.2
Interbank	358	305.7	820.9	554.8	2,522.2
Derivatives	188	160.3	115.3	321.9	513.2
Other securities and earning assets	9,795	8,371.6	10,584.2	9,159.1	6,711.8
Total earning assets	52,814	45,140.4	46,295.1	43,280.8	42,347.4
Cash and due from banks	8,134	6,952.3	8,086.1	9,869.6	11,755.3
Other assets	683	583.9	848.3	319.4	332.8
Total assets	61,632	52,676.6	55,229.5	53,469.8	54,435.5
Liabilities					
Customer deposits	32,856	28,082.4	31,205.0	27,921.8	29,851.5
Interbank and other short-term funding	9,683	8,276.3	8,361.1	9,598.0	8,773.1
Other long-term funding	13,318	11,382.7	10,904.7	10,920.5	10,852.4
Trading liabilities and derivatives	250	213.6	305.0	605.0	471.9
Total funding and derivatives	56,107	47,955.0	50,775.8	49,045.3	49,948.9
Other liabilities	399	340.7	242.9	347.7	520.9
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	5,126	4,380.9	4,210.8	4,076.8	3,965.7
Total liabilities and equity	61,632	52,676.6	55,229.5	53,469.8	54,435.5
Exchange rate	USD1 = CHF0.8547		USD1 = CHF0.9303	USD1 = CHF0.9202	USD1 = CHF0.88985

Source: Fitch Ratings, Fitch Solutions, BKB

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.1	1.0	1.0	0.7
Net interest income/average earning assets	1.0	0.9	0.8	0.9
Non-interest expense/gross revenue	59.7	62.0	63.4	69.5
Net income/average equity	4.0	3.4	3.0	2.8
Asset quality				
Impaired loans ratio	0.6	0.6	0.7	0.3
Growth in gross loans	4.4	4.6	2.0	3.4
Loan loss allowances/impaired loans	95.8	95.7	95.0	186.0
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	17.8	17.7	17.6	16.5
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	8.3	7.6	7.6	7.3
Basel leverage ratio	7.2	6.9	6.9	8.2
Net impaired loans/common equity Tier 1	0.2	0.2	0.3	-2.4
Net impaired loans/Fitch Core Capital	n.a.	n.a.	n.a.	n.a.
Funding and liquidity				
Gross loans/customer deposits	130.0	112.1	119.8	109.9
Gross loans/customer deposits + covered bonds	103.4	91.0	95.1	89.0
Liquidity coverage ratio	140.0	154.5	233.6	230.4
Customer deposits/total non-equity funding	58.8	61.8	57.1	60.0
Net stable funding ratio	123.1	122.4	125.6	n.a.

Source: Fitch Ratings, Fitch Solutions, BKB

Support Assessment

Shareholder Support	
Shareholder IDR	AAA
Total Adjustments (notches)	0
Shareholder Support Rating	aaa
Shareholder ability to support	
Shareholder Rating	AAA/ Stable
Shareholder regulation	Equalised
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	1 Notch
Support record	Equalised
Subsidiary performance and prospects	Equalised
Legal commitments	Equalised

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

BKB's SSR is based on support from the Canton of Basel-Stadt, the bank's guarantor and majority owner, and our view of the canton's creditworthiness. The canton guarantees all non-subordinated liabilities of the bank, but the guarantee specifically excludes liabilities of the cantonal bank to its subsidiaries and the liabilities of those subsidiaries.

The canton's guarantee does not explicitly address the timeliness of support, but Fitch believes that, if necessary, support would be provided in a timely fashion, given BKB's high importance for the region and the potential repercussions of the bank's failure for the regional economy and the Swiss financial sector.

Environmental, Social and Governance Considerations

FitchRatings Basler Kantonalbank

Credit-Relevant ESG Derivation

ESG Relevance to Credit Rating

Basler Kantonalbank has 5 ESG potential rating drivers

- Basler Kantonalbank 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	Score	Issues	ESG Relevance
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

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 result in a negative impact unless indicated with a '+' sign for positive impact. Scores of 3, 4 or 5) and provides a brief explanation for the score.

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

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.

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

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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