FitchRatings

Banks
Private Banks
Netherlands

# Van Lanschot Kempen N.V.

## Key Rating Drivers

**Entrenched Wealth-Management Franchise:** Van Lanschot Kempen N.V.'s ratings are underpinned by its well-established, albeit niche, franchise in wealth management, asset management, and investment banking, as well as its sound asset quality and capitalisation, and stable funding and liquidity profile. The ratings also factor in the bank's improved profit generation from steadily increasing AUM.

**Solid Growth in Private Banking:** Van Lanschot's strategy aims for increasing its AUM through organic growth and targeted acquisitions. The bank has a good record of organically generating net new money (averaging EUR1.9 billion net inflows annually over the past five years) and integrating acquired businesses. In addition to its strong presence in the Netherlands, which accounted for 82% of its 2023 income, the bank is progressively enhancing its footprint in Belgium, where it has a moderate but growing franchise.

**Moderate Risk Profile:** We expect Van Lanschot to maintain a conservative risk appetite, given its focus on low-risk mortgage lending in the Netherlands. Underwriting standards for these loans are sound, consistent and based on affordability, resulting in good credit quality, which we expect to continue. Fitch expects other higher-risk relationship-driven loans to continue to account for a low proportion of the loan book. Market and operational risks are moderate and the risk-management framework has been strengthened since 2020.

**Sound Asset Quality:** Van Lanschot's loan book is larger than its traditional private banking peers (end-2023: 54% of total assets) and mostly comprises low-risk and well-performing Dutch residential mortgage loans. The bank's impaired loans ratio was a low 1.4% at end-2023 and we expect credit quality to remain resilient to lingering macroeconomic challenges, with the ratio remaining below 2%. The bank's securities portfolio is predominantly invested in highly-rated counterparties.

**Adequate, Structurally Improved Profitability:** Van Lanschot's ability to attract AUM inflows in recent years resulted in improvement in its through-the-cycle profitability. Operating profit increased to 4.1% of risk-weighted assets (RWAs) in 2023. Net interest income contributed strongly to the bank's 2023 earnings due to Van Lanschot's proportion of lending activities, which is higher than peers. We expect the ratio to decline but remain above 3% over the next two years, due to resilient revenue and controlled cost increases.

**Strong Capitalisation:** Van Lanschot's risk-weighted capital ratios are solid, with a common equity Tier 1 (CET1) ratio of 19.6% at end-2023. We expect Van Lanschot to operate with a lower CET1 ratio as operations continue to grow, and as the bank aims to return excess capital to shareholders, although it should remain above the bank's target of at least 17.5%, including a 2.5% add-on for potential bolt-on acquisitions. The 5.8% leverage ratio is sound in comparison with other universal Dutch banks and compares favourably with most private banking peers.

**Stable Funding, Ample Liquidity:** Van Lanschot has some funding diversification, although it is primarily funded through its private banking customer deposits (end-2023: 84% of total funding), which have good granularity compared with typical private banks. Private banking customer deposits can be more volatile during periods of stress, but the bank maintains a large liquidity buffer (end-2023: EUR6.3 billion; 37% of total assets) made of cash and highly-rated fixed-income securities, which effectively mitigates liquidity risks.

## Ratings

| Foreign Currency | |
|---|---|
| Long-Term IDR | A- |
| Short-Term IDR | F2 |
| Viability Rating | a- |
| Government Support Rating | ns |

| Sovereign Risk (Netherlands) | |
|---|---|
| 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 Upgrades Van Lanschot to 'A-'; Outlook Stable (May 2024)

Mortgage Market Index – Netherlands 1H24 (April 2024)

Global Economic Outlook (March 2024)

Fitch Affirms Netherlands at 'AAA'; Outlook Stable (February 2024)

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## Rating Sensitivities

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

Van Lanschot's ratings would be downgraded if its franchise durably weakens or if a structural decline in its AUM margins weakens the bank's operating profit below 3% of RWAs on a sustained basis.

The ratings would also be pressured following a greater-than-expected decrease in its capitalisation, with the CET1 ratio falling to below 15% for a prolonged period. This could result from a greater risk appetite leading to a considerable weakening of asset quality, material acquisitions, or substantial operational losses, which would also lead to a reassessment of the bank's risk profile. A considerable weakening of the bank's liquidity buffer or evidence of diminished deposit franchise strength would also be negative for the ratings.

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

An upgrade of the ratings in the near-term is unlikely and would require significantly greater business diversification and a considerable narrowing of the scale gap to higher-rated private banking peers with more diverse franchises.

## Other Debt and Issuer Ratings

| Rating level | Rating |
|---|---|
| Senior unsecured | A-/F2 |
| Subordinated | BBB |

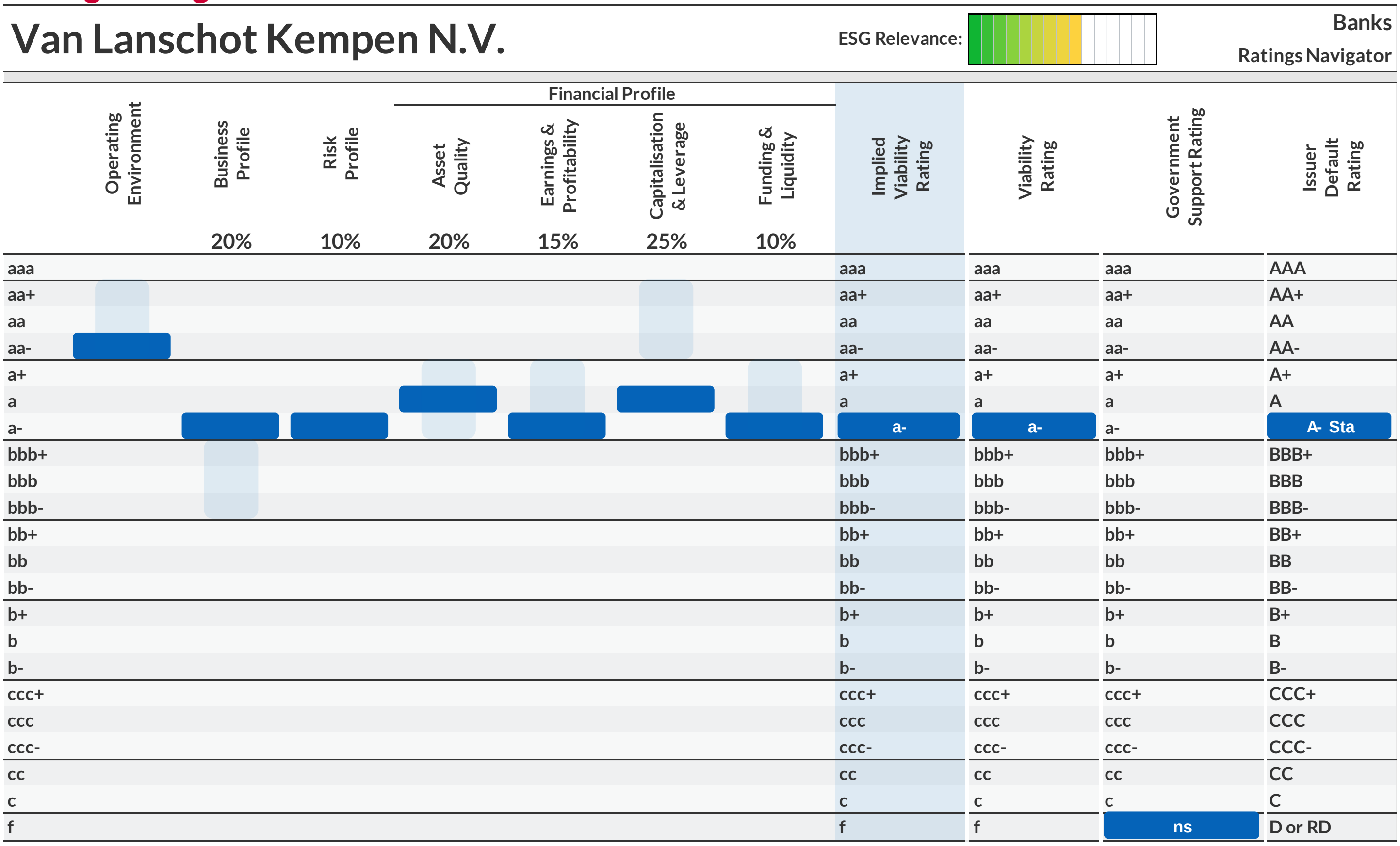
Source: Fitch Ratings

Van Lanschot's Short-Term IDR of 'F2' is the lower of the two options mapping to a 'A-' Long-Term IDR. This is because our 'a-' assessment of the bank's funding and liquidity is below the minimum 'a' required for a Short-Term IDR of 'F1'.

Van Lanschot's long- and short-term senior unsecured debt ratings are at the same level as its IDRs. Fitch believes the default risk of the bank's senior unsecured debt is equivalent to the default risk implied by the IDR as it views senior unsecured obligations as having average recovery prospects.

The Tier 2 subordinated debt securities issued by Van Lanschot are rated two notches lower than its VR, reflecting Fitch's baseline notching for loss severity.

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

The capitalisation & leverage score of ‘a’ is below the ‘aa’ implied category score due to the following adjustment reason: size of capital base (negative).

# Company Summary and Key Qualitative Factors

## Business Profile

Van Lanschot has a well-established but fairly small private banking franchise in the Netherlands. It ranks fourth amongst Dutch private banks by AUM after the private banking arms of the three large domestic banking groups. The bank only focuses on onshore private banking, serving high-net-worth individuals and entrepreneurs. Geographical diversification is attained mainly through its operations in Belgium, a fragmented market, where it has a moderate but growing franchise. Recent acquisitions in Belgium support Van Lanschot's medium-term aim of becoming a top-three private bank by AUM in the country.

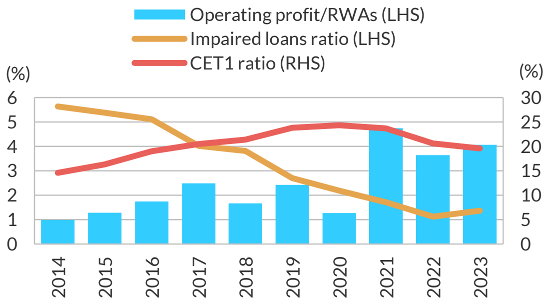
Van Lanschot has an adequate franchise in asset management with about EUR75 billion AUM at end-2023, largely in the Netherlands but with a growing contribution from the UK. This business is characterised by high volumes and low-margins given the bank's main focus on fiduciary management. It also has a niche positioning in investment banking, in specific sectors, including European real estate, life sciences and healthcare, financial institutions and fintech.

### *Organic and Acquisition-Driven Growth Strategy*

Van Lanschot's strategy focuses on strengthening its wealth management franchise with the ambition of becoming a leading wealth manager in the Benelux region in the medium term with a through-the-cycle target return on CET1 capital of 12%. Van Lanschot's combined private banking and asset management AUM reached nearly EUR135 billion at end-March 2024 (end-2023: EUR127 billion). The bank plans to continue growing its franchise both organically and inorganically. Private client AUM were boosted by a further EUR0.7 billion from the acquisition of Belgian investment adviser Accuro in April 2024.

Operating efficiency is another key focus for the bank with a medium-term cost/income target of 70% (2023: 72% per Van Lanschot's calculation). The bank aims to sustain this through income growth, disciplined pricing, controlled cost increases and enhanced cross-selling across its client groups. We believe it will be challenging for the bank to achieve its cost/income target in the short term given still-high cost inflation, with successful execution being dependent upon its ability to grow and steer the AUM towards higher-margin assets.

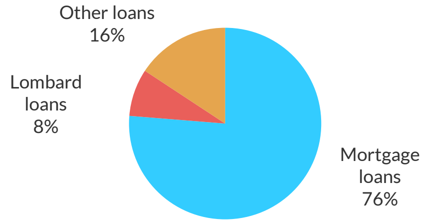
### Performance Through the Cycle




Source: Fitch Ratings, Fitch Solutions, Van Lanschot

### Gross Loans by Segment

End-2023: EUR9.2bn




Note: Other includes corporate banking loans, family businesses and entrepreneurs, currents accounts, real estate loans and private loans
Source: Fitch Ratings, Van Lanschot

## Risk Profile

Fitch expects Van Lanschot's loan book to remain dominated by low-risk mortgage loans in the Netherlands (end-2023: 76% of gross loans). The majority of these loans are provided to private banking clients with an average loan size of around EUR0.6 million, higher than at most commercial banks given Van Lanschot's high-net-worth customer profile. The average loan/value ratio of the book was also higher than the commercial banks, but not significantly so, at a satisfactory 64% at end-2023.

Lombard loans are collateralised by a portfolio of financial assets, with conservative loan/value ratios applied at origination. We view the bank's other loans as inherently riskier, but these should remain a small proportion of the loan book. These are solely intended for clients who have placed substantial funds with Van Lanschot and comprise loans to businesses, typically partners of consultancy or law firms, overdrafts, and other real estate loans.

We view operational risks as inherently high in private banking business models, but we believe these risks are generally well controlled by Van Lanschot. The bank's earnings are exposed to market risk arising from structured products placed with its clients and equities trading in its investment banking business. The bank also has some appetite for investing in internally-managed funds, which is a source of valuation risk. However, we believe market risk exposures are manageable, appropriately mitigated with hedges, and Van Lanschot maintains generally conservative sensitivity limits.

# Financial Profile

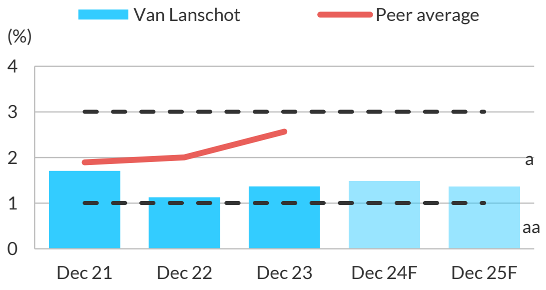
## Asset Quality

Van Lanschot's asset quality continues to reflect its low credit risk appetite. The impaired loans ratio rose to 1.4% at end-2023 (end-2022: 1.1%) due to the default of a single large non-mortgage loan. Van Lanschot's lending activities are notably concentrated in a single, yet robust, economy, with the Netherlands representing over 90% of the loan portfolio at end-2023. We expect asset quality to remain sound in the medium term, supported by the bank's well-performing Dutch residential mortgage loans that have marginal sensitivity to economic cycles.

Fitch expects loan impairment charges (LICs) to remain low in 2024 due to the resilience of the Dutch economy and the bank's low exposure to segments and sectors most susceptible to economic and interest rate cycles. Van Lanschot's LICs were EUR2 million in 2023, equivalent to 2bp of average gross loans (2022: EUR8 million release). We expect 2024 LICs to remain below 10bp of average gross loans.

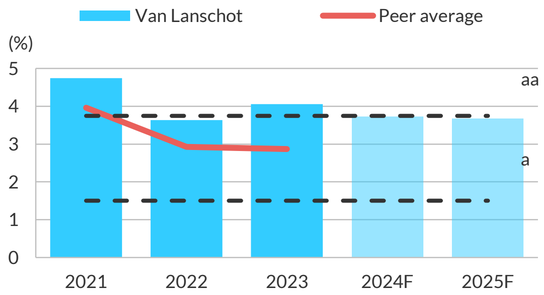
Van Lanschot's non-loan earning assets are generally low-risk and mainly include large central bank deposits and the securities book. Nearly all holdings in the latter are investment-grade category, and about two-thirds were rated 'AAA' at end-2023. Underlying assets of the portfolio are mostly government-related and covered bonds.

### Impaired Loans/Gross Loans




Source: Fitch Ratings, Fitch Solutions, banks

### Operating Profit/Risk-Weighted Assets




Source: Fitch Ratings, Fitch Solutions, banks

## Earnings and Profitability

Van Lanschot's consistency in attracting net new money flows into AUM as part of its capital-light strategy has improved profitability, in which the bank had lagged behind peers in the past due to its limited geographical diversification, lower scale and absence of higher-margin offshore private banking operations. The acquisition of Robeco's online investment platform and improved market conditions in 2023, together with further strong organic inflows in its private banking and asset management businesses, boosted total AUM to almost EUR135 billion at end-March 2024. We expect further net new money flows in the near-term to continue to support AUM growth and, ultimately, fees and commissions income.

Revenue is mostly generated by the private banking business (2023: 74% of the total) and is concentrated in the Netherlands (2023: 82%). Growth in AUM resulted in robust fee and commission income growth in recent years, which accounted for 64% of revenue in 2023. The contribution of net interest income to revenue is high compared with pure private banks as residential mortgage loans are a key product marketed to Van Lanschot's clients. Consequently, the bank benefitted more from higher interest rates than at most peers, with net interest income growth of nearly 30% in 2023.

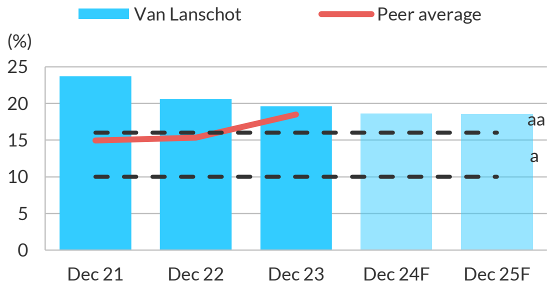
Cost increases in recent years have been partly driven by a higher number of full-time employees, and by integration costs associated with the bank's frequent acquisitions. However, the cost/income ratio remained stable at 77% at end-2023, and was in line with the bank's closest peers.

## Capital and Leverage

Van Lanschot's CET1 ratio (end-2023: 19.6%) was better than that of most private banking peers, and was well above the 10.9% minimum CET1 requirement (excluding Pillar 2 guidance). Van Lanschot intends to maintain its medium-term CET1 ratio at 15% plus a 2.5% buffer for potential M&A, with capital in excess of 17.5% to be returned to shareholders. We expect the impact on its CET1 ratio from future acquisitions to be manageable. We view a CET1 ratio above 15% as commensurate with the bank's moderate risk profile.

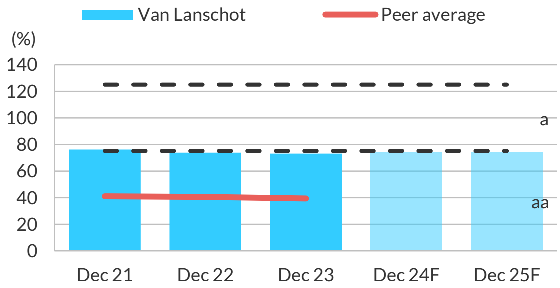
Van Lanschot's targeted dividend pay-out ratio of 50%–70% of net income is reasonably high; however, we do not expect it to result in any significant pressure on the bank's adequate capital base.

### CET1 Ratio




Source: Fitch Ratings, Fitch Solutions, banks

### Gross Loans/Customer Deposits




Source: Fitch Ratings, Fitch Solutions, banks

## Funding and Liquidity

Van Lanschot's funding profile is underpinned by a large deposit base with low concentration risk. Customer deposit growth had been strong over 2020 to 2022, averaging 10% and adding considerable liquidity to Van Lanschot's balance sheet. This reversed in 2023 as deposits fell to EUR12.6 billion by end-2023 (-1% yoy), mostly due to clients converting savings into higher-yielding AUM investments. We expect the bank's loans/deposits ratio, which had steadily declined over the past number of years (end-2023: 73%) to remain stable in the short term as loan and deposit growth is likely to be low.

Liquidity is sound. The liquidity coverage and net stable funding ratios were strong at 225% and 156% at end-2023, respectively. The bank's large liquidity buffer of EUR6.3 billion at end-2023 consisted of cash, central bank placements and mostly 'AAA'-rated securities that covered around eight times its wholesale funding redemptions over 2024–2026.

## Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for 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, EFG International AG (VR: a), Rothschild Martin Maurel S.C.S. (a-), Oddo BHF SCA (bbb+), Quintet Private Bank (Europe) S.A. (bbb). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report. The 2023 average does not include operating profit/RWAs and CET1 ratios for Rothschild Martin Maurel S.C.S.

# 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) | (EURm) | (EURm) | (EURm) | (EURm) |
| | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 216 | 196.8 | 151.6 | 148.4 | 151.8 |
| Net fees and commissions | 468 | 427.3 | 407.7 | 386.0 | 296.3 |
| Other operating income | 50 | 45.3 | 35.1 | 64.0 | -5.3 |
| Total operating income | 733 | 669.4 | 594.4 | 598.4 | 442.8 |
| Operating costs | 535 | 488.5 | 446.4 | 423.5 | 387.9 |
| Pre-impairment operating profit | 198 | 180.9 | 148.0 | 174.9 | 54.9 |
| Loan and other impairment charges | 2 | 2.1 | -7.7 | -11.7 | 1.8 |
| Operating profit | 196 | 178.8 | 155.7 | 186.6 | 53.1 |
| Other non-operating items (net) | -16 | -14.6 | -36.7 | -8.1 | 1.1 |
| Tax | 43 | 39.0 | 34.7 | 34.7 | 4.4 |
| Net income | 137 | 125.2 | 84.3 | 143.8 | 49.8 |
| Other comprehensive income | 8 | 6.9 | 1.3 | 7.9 | 0.1 |
| Fitch comprehensive income | 145 | 132.1 | 85.6 | 151.7 | 49.9 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 10,079 | 9,199.5 | 9,404.0 | 8,925.1 | 8,512.4 |
| - Of which impaired | 138 | 126.0 | 106.0 | 153.0 | 186.0 |
| Loan loss allowances | 42 | 38.1 | 40.0 | 49.5 | 64.1 |
| Net loans | 10,037 | 9,161.4 | 9,364.0 | 8,875.6 | 8,448.3 |
| Interbank | 85 | 77.5 | 108.2 | 71.3 | 210.6 |
| Derivatives | 375 | 342.5 | 549.6 | 252.9 | 376.7 |
| Other securities and earning assets | 4,114 | 3,755.1 | 3,276.1 | 2,800.1 | 3,449.5 |
| Total earning assets | 14,611 | 13,336.5 | 13,297.9 | 11,999.9 | 12,485.1 |
| Cash and due from banks | 3,205 | 2,925.3 | 3,141.8 | 3,714.2 | 2,227.8 |
| Other assets | 629 | 574.1 | 578.2 | 592.5 | 436.1 |
| Total assets | 18,445 | 16,835.9 | 17,017.9 | 16,306.6 | 15,149.0 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 13,776 | 12,573.8 | 12,726.2 | 11,729.6 | 10,141.1 |
| Interbank and other short-term funding | 249 | 227.2 | 372.0 | 100.3 | 91.8 |
| Other long-term funding | 1,826 | 1,667.1 | 1,528.1 | 1,991.5 | 2,051.7 |
| Trading liabilities and derivatives | 780 | 712.3 | 700.4 | 740.6 | 1,229.6 |
| Total funding and derivatives | 16,632 | 15,180.4 | 15,326.7 | 14,562.0 | 13,514.2 |
| Other liabilities | 336 | 306.7 | 308.8 | 335.3 | 278.7 |
| Preference shares and hybrid capital | 111 | 101.7 | 101.7 | 101.7 | 101.7 |
| Total equity | 1,366 | 1,247.1 | 1,280.7 | 1,307.6 | 1,254.4 |
| Total liabilities and equity | 18,445 | 16,835.9 | 17,017.9 | 16,306.6 | 15,149.0 |
| Exchange rate | | USD1 = EUR0.912742 | USD1 = EUR0.937559 | USD1 = EUR0.884173 | USD1 = EUR0.821963 |

Source: Fitch Ratings, Fitch Solutions, Van Lanschot

## Key Ratios

| | 31 Dec 23 | 31 Dec 22 | 31 Dec 21 | 31 Dec 20 |
|---|---|---|---|---|
| **Ratios (%; annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 4.1 | 3.6 | 4.8 | 1.3 |
| Net interest income/average earning assets | 1.5 | 1.2 | 1.2 | 1.2 |
| Non-interest expense/gross revenue | 76.7 | 77.2 | 74.3 | 90.2 |
| Net income/average equity | 9.9 | 6.6 | 11.2 | 4.0 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 1.4 | 1.1 | 1.7 | 2.2 |
| Growth in gross loans | -2.2 | 5.4 | 4.9 | -1.7 |
| Loan loss allowances/impaired loans | 30.2 | 37.7 | 32.4 | 34.5 |
| Loan impairment charges/average gross loans | 0.0 | -0.1 | -0.1 | 0.0 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 19.6 | 20.6 | 23.7 | 24.3 |
| Tangible common equity/tangible assets | 5.7 | 5.8 | 6.2 | 7.3 |
| Basel leverage ratio | 5.8 | 5.7 | 6.3 | 7.4 |
| Net impaired loans/common equity Tier 1 capital | 10.2 | 7.5 | 11.1 | 11.9 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 73.2 | 73.9 | 76.1 | 83.9 |
| Gross loans/customer deposits + covered bonds | 65.5 | 66.9 | 67.9 | 73.7 |
| Liquidity coverage ratio | 224.7 | 178.3 | 172.0 | 177.4 |
| Customer deposits/total non-equity funding | 83.6 | 83.7 | 81.0 | 77.3 |
| Net stable funding ratio | 156.4 | 158.1 | 163.0 | 161.8 |

Source: Fitch Ratings, Fitch Solutions, Van Lanschot

## Support Assessment

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

The colours indicate the weighting of each KRD in the assessment.
Higher influence (Resolution legislation) · Moderate influence (Systemic importance) · Lower influence (all other factors)

Van Lanschot's Government Support Rating of 'no support' is driven by Fitch's view that sovereign support for the bank, while possible, cannot be relied on. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a resolution framework under which it is likely that senior creditors will be required to participate in losses, if necessary, instead of or ahead of the bank receiving sovereign support.

# Environmental, Social and Governance Considerations

FitchRatings **Van Lanschot Kempen N.V.** Banks Ratings Navigator

## Credit-Relevant ESG Derivation

| Credit-Relevant ESG Derivation | | | | Overall ESG Scale |
|---|---|---|---|---|
| Van Lanschot Kempen N.V. has 5 ESG potential rating drivers | key driver | 0 | issues | 5 |
| Van Lanschot Kempen N.V. 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. | driver | 0 | issues | 4 |
| Governance is minimally relevant to the rating and is not currently a driver. | 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 | Business Profile (incl. Management & governance); Risk Profile; Asset Quality | 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 right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

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

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

## Social (S)

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

## Governance (G)

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

**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/esg.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.