FitchRatings

Banks
Universal Commercial Banks
Switzerland

Zuercher Kantonalbank

Key Rating Drivers

Support Drives Ratings: Zuercher Kantonalbank's (ZKB) Issuer Default Ratings (IDRs) are driven by support from its guarantor and sole owner, the Canton of Zurich (AAA/Stable/F1+). The bank's Shareholder Support Rating (SSR) is equalised with the canton's Long-Term IDR. The Viability Rating (VR) reflects ZKB's stable and resilient business model, conservative risk appetite, strong asset quality, funding and capitalisation and adequate profitability.

Cantonal Guarantee: The canton guarantees ZKB's non-subordinated liabilities according to a specific cantonal law (ZKB Law). The bank's size is large relative to the canton's budgetary resources, but its stable and resilient business model, funding and capital buffers mean that recapitalisation or liquidity support would be manageable in a realistic stress scenario.

Timely Support Expected: The canton's guarantee does not address the timeliness of support, but we believe it would be provided timely, given ZKB's high importance for the canton and potential repercussions of a systemically important bank's failure for the Swiss financial sector. We also believe that a default of ZKB would constitute huge reputational risk to the canton. The canton's constitution requires it to have a cantonal bank, making the support more likely.

Strong Regional Franchise: ZKB's VR is supported by its leading franchise in deposit taking and residential mortgage lending in the Canton of Zurich, where operations are concentrated. Geographic concentration is mitigated by Zurich's economic strength and ZKB's diversified business model, covering retail and commercial banking. The bank is also the second-largest fund provider and one of the largest asset managers in Switzerland. This benefits its revenue diversification, with fee and commission income contributing around a third of total income.

Material Real Estate Exposure: ZKB's impaired loans ratio is very low. Its main risk stems from its large real estate exposure in Zurich. We view loan quality to be resilient to a significant decline in property values, due to the bank's strict underwriting standards and moderate loan-to-value ratios. ZKB's non-mortgage exposure (10% of gross loans) is more vulnerable to economic downturns. We expect the impaired loans ratio to remain below 1% in 2025 and 2026.

Declining Earnings on Lower Rates: Our assessment of ZKB's profitability reflects its long record of adequate, stable and reasonably diversified earnings, with a material share of trading income. Operating profitability peaked in 2023, at 1.9% of risk-weighted assets (RWA), and decreased last year to 1.5% due to the policy rate dropping to 0.5% at year-end. We expect operating profitability to decline further this year but to remain above 1.2%.

Strong Capitalisation: ZKB's common equity Tier 1 ratio increased to 20.2% at end-1Q25 driven by a decline in risk-weighted assets (RWA) following the introduction of the final Basel III rules in Switzerland. The canton's guarantee covers half of ZKB's gone-concern capital requirement, which will be fully phased in at 7.86% in 2026. The remaining half is mainly covered with bail-in debt (CHF1.8 billion at end-1Q25) and undrawn endowment capital (CHF1 billion).

Stable Funding: The large and mostly granular deposit base underpins funding, despite some more concentrated corporate and institutional deposits. Wholesale funding needs are moderate and benefit from the bank's cantonal guarantee and investors' perception of ZKB as a safe haven in times of market uncertainty. As a domestic systemically important bank, ZKB is subject to more stringent liquidity requirements, which it comfortably complies with.

Recovery and Resolution Plan: ZKB has a recovery and resolution plan approved by the Swiss banking supervisor. Under this, the canton could be required to provide around CHF3 billion of capital to recapitalise ZKB. Fitch believes this would be manageable for the canton given its strong financial position, and would not on its own drive negative action on the canton's ratings or trigger a reassessment of our support assumptions.

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

Highest ESG Relevance Scores

Environmental	2
Social	3
Governance	3

Applicable Criteria

Bank Rating Criteria (March 2025)

Related Research

Fitch Affirms Zuercher Kantonalbank at 'AAA'; Outlook Stable (June 2025)

Fitch Affirms Switzerland at 'AAA'; Outlook Stable (April 2025)

Global Economic Outlook – June 2025

Fitch Affirms Canton of Zurich at 'AAA'; Outlook Stable (May 2024)

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Rating Sensitivities

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

A downgrade of the Canton of Zurich's IDRs would result in a downgrade of ZKB's IDRs and SSR. A material increase in the canton's contingent liabilities, which are dominated by ZKB, could put pressure on ZKB's IDRs and SSR. Contingent liabilities could increase, for instance, because of sustained growth in 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 ZKB.

ZKB's IDRs and SSR are also sensitive to changes to its relationship with the canton, especially if the ZKB Law was amended in a way that would weaken the guarantee's effectiveness or that casts doubt on the timeliness of support. However, we view this scenario as unlikely.

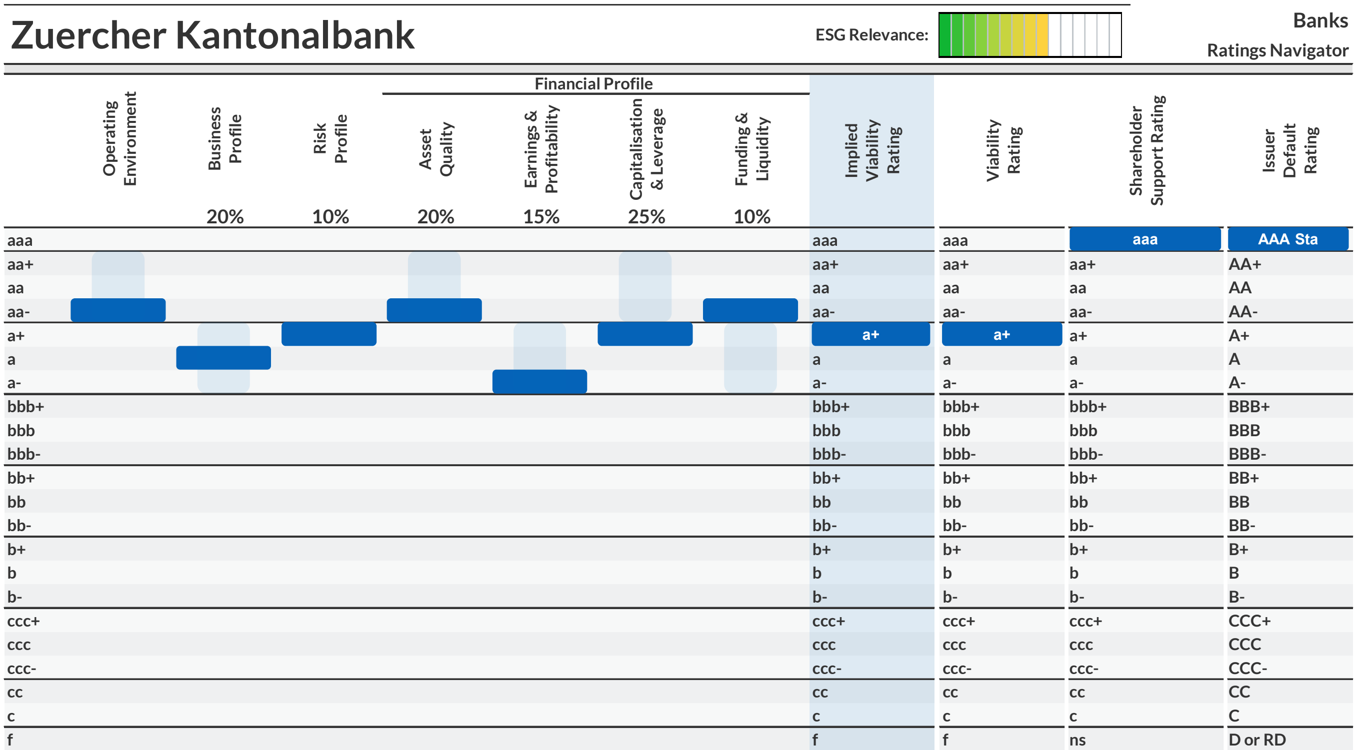
We would likely downgrade the VR if large real estate-related losses, which could arise from a sharp drop in residential property prices in Zurich, led to a common equity Tier 1 ratio materially below 16%, or an impaired loans ratio durably above 2%. The rating would also come under pressure if profitability deteriorated durably, or if the bank increased its risk appetite, which could be indicated by higher loan growth or by greater exposure to interest-rate risk in the loan book.

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 the VR is unlikely given the concentration of ZKB's business model on the Canton of Zurich, resulting in large exposure to the local property market. An upgrade would also require an improvement in the bank's profitability.

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 capitalisation and leverage score of 'a+' has been assigned below the 'aa' category implied score, due to the following adjustment reason: capital flexibility and ordinary support (negative).

The funding and liquidity score of 'aa-' has been assigned above the 'a' category implied score, due to the following adjustment reason: liquidity access and ordinary support (positive).

Company Summary and Key Qualitative Factors

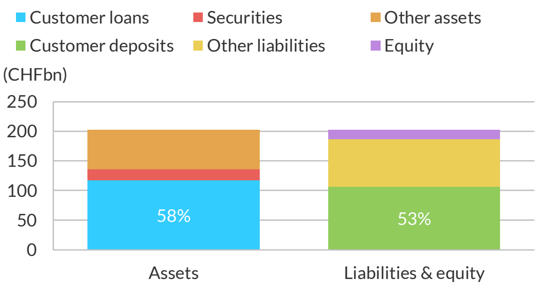
Business Profile

ZKB is the largest cantonal bank in Switzerland and the third-largest banking group by assets. ZKB operates under a public mandate, set out in the ZKB Law, which governs its focus on the Zurich region. The law prescribes the bank's activities, focused on providing full banking services to local households and SMEs, as well as helping the canton's economic and social development by supporting access to residential property. Accordingly, ZKB operates the densest branch network in the Canton of Zurich and has a leading regional franchise, with shares of 30%–40% in retail deposits and mortgage lending.

Beyond Zurich, ZKB mostly lends to Swiss SMEs and export-focused companies, but the bank's national-level market shares are modest. ZKB is also the second-largest fund provider in the country and one of the largest asset managers in Switzerland. The bank's domestic private-banking franchise is niche. Its international private banking operations are also small, although the bank is expanding private banking and asset management activities in certain markets, particularly Germany.

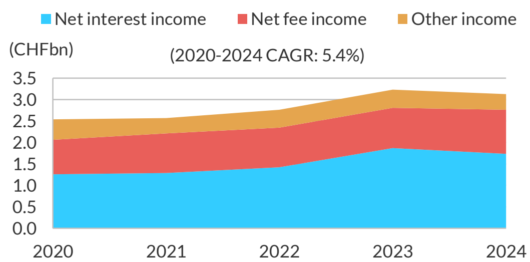
The bank's cantonal owners maintain good oversight of ZKB's activities, including through board representation, and the bank is ultimately supervised by the canton's parliament. In combination with the ZKB Law, this helps to support the stability of ZKB's business model and strategy, also constraining the bank's ability to expand its business activities. This has delivered a stable performance record through the cycle. At the same time, we believe that ZKB's management is independent and not subject to undue political influence.

Balance Sheet
End-2024



Source: Fitch Ratings, Fitch Solutions, ZKB

Revenue Breakdown



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

Risk Profile

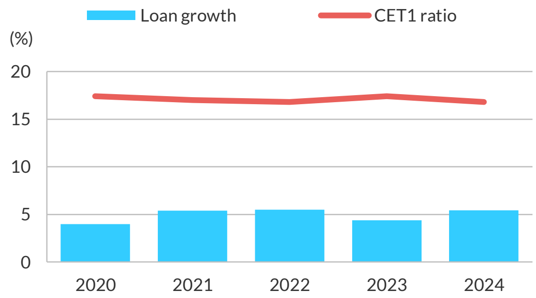
ZKB's public mandate drives the bank's conservative risk appetite. Fitch considers ZKB's underwriting standards to be low-risk and conservative, to the benefit of its stable and sound loan quality. The bank is proactive in tightening its lending policies based on market changes. ZKB also bases its loan/value calculations on indexed property values, providing an extra buffer in the event of a significant market price correction. ZKB has limited risk appetite for non-recourse commercial real estate lending outside the residential sector.

The bank pursues organic growth in its investment and asset-management business to further strengthen its income diversification and to reduce the share of net interest income to less than 50% of total operating income. ZKB has been improving its asset management market shares and coping well with the targeted volume increases.

Although the ZKB Law allows for bank operations outside its home region, subject to not taking any excessive risks or negatively affecting the bank's provision of services locally, we do not expect ZKB to significantly grow its balance sheet outside the canton. Locally it has been growing faster than the rest of the market and this is likely to continue.

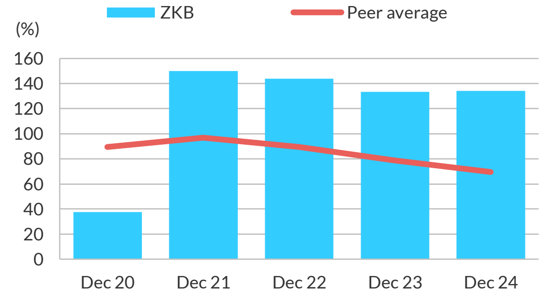
ZKB's interest-rate risk in the banking book (IRRBB) is broadly in line with that of Swiss peers. The bank's interest rates exposure serves as a strategic hedge against declining interest rates. There were no unrealised losses in its held-to-maturity debt portfolio at end-2024. The bank has managed IRRBB well so far, including during the latest interest rate cycle. Trading is client-driven and covers various asset classes, such as foreign exchange (mainly francs to euros), interest-rate and credit derivatives, equities, commodities, structured products and other securities.

Loan Growth



Source: Fitch Ratings, Fitch Solutions, ZKB

Loan Loss Allowances/Impaired Loans



Source: Fitch Ratings, Fitch Solutions, banks

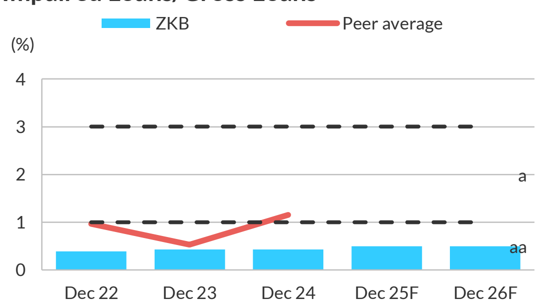
Financial Profile

Asset Quality

ZKB's main risk stems from its large real-estate exposure in Zurich, with about three-quarters of end-2024 gross customer loans consisting of residential mortgage loans, including rental properties. Fitch believes this concentration on real estate is adequately mitigated by the Canton of Zurich's strong economic fundamentals. The bigger part of mortgage loans is to private individuals, with a median loan/value ratio of 44% at end-2024, of which about two-thirds are for owner-occupied properties. Loan quality would therefore be resilient to a significant decline in residential property values, but a severe price correction would put pressure on the VR.

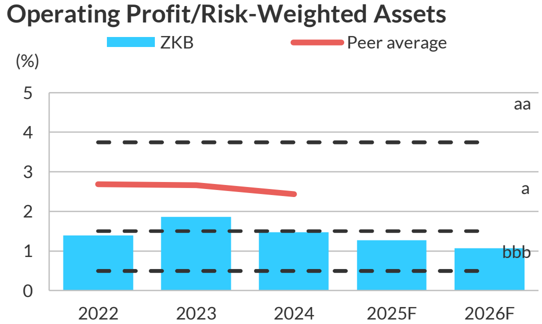
Loan impairment charges (LICs) remained low and broadly flat in 2024. Specific loan loss allowances were down year on year (yoy), and value adjustments for expected credit losses were up (partly due to customers' preference for fixed-rate mortgages). Impaired loans at 0.4% of gross loans were unchanged yoy. Given the most recent policy rate cut to 0%, we expect only a slight increase in LICs in 2025 and that the impaired loans ratio will well remain below 1% in 2025 and 2026.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

ZKB's universal banking model provides good earnings diversification, with net fees and commissions income (NCI) generally accounting for more than a third of the bank's revenue, and trading activities contributing a material proportion as well.

The bank's operating profit of CHF1.3 billion in 2024 was down from the record level of 2023 driven by lower net interest income (NII), higher operating expenses (+5% yoy as calculated by Fitch) and LICs. NCI increased in line with the bank's focus on non-NII income and compensated the trading income decline.

We expect ZKB's operating profitability to moderate this year but to remain above 1.2% of its RWAs. As the policy interest rate declined by 50 bp in 1H25 to 0%, we expect net interest income to decrease to around the level of 2022. We expect the expansion of the bank's investment product offering to support NCI growth in 2025 and 2026 and trading income to remain material as the bank has well-established franchises in several trading segments and structured products.

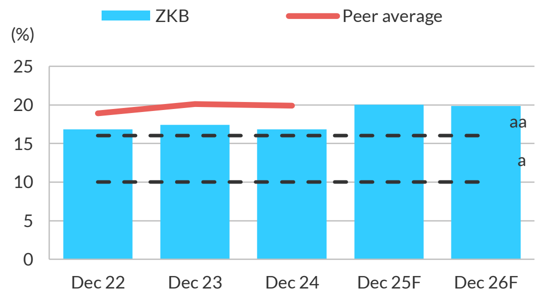
We forecast moderate increases in operating costs on the back of continued IT investments and higher staff numbers. The bank's management continues to focus on cost control, but we believe ZKB's cost base will remain heavier and less flexible than that of many peers given the cantonal mandate, which limits the bank's ability to close branches to reduce headcount. We do not expect significant asset-quality deterioration, given prudent underwriting standards, a high share of secured exposures and the expectation of robust labour markets.

Capitalisation and Leverage

ZKB's strong CET1 ratio (1Q25: 20.2%) was well above the going-concern capital requirement of 13.8% (including the countercyclical capital buffer). The introduction of Basel III final regulations in Switzerland this year had a significant impact on ZKB's RWAs, which decreased by CHF14 billion in 1Q25. We expect the CET1 ratio to remain strong in the next two years. The dividend pay-out ratio decreased last year to compensate for the 15% OECD tax introduced, leaving the level of the total distribution to the canton unchanged.

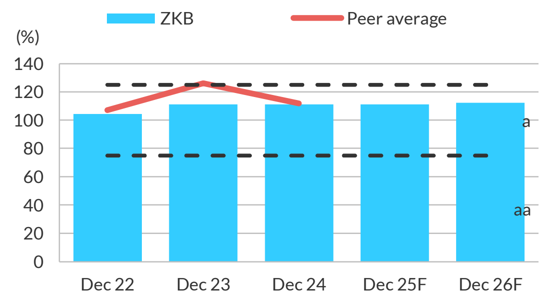
In addition to dividends, ZKB pays the canton a financial compensation of around CHF30 million a year for its guarantee. The canton's guarantee also covers half of ZKB's gone-concern capital requirement, which will be fully phased in at 7.86% of RWAs in 2026, corresponding to CHF6.8 billion at 2024 RWAs. The other half is mostly covered by ZKB's undrawn endowment capital of CHF1 billion, which is reserved entirely for the bank's recovery and resolution planning, and by bail-in bonds, which ZKB started issuing in 2023 as detailed regulation governing the issuance of bail-in bonds by cantonal banks has been put in place.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

ZKB's large and mostly granular deposit base underpins its funding profile, despite some concentrated corporate and institutional deposits. The bank's loans/deposits ratio remained stable in 2024 at 111%, as calculated by Fitch. We do not expect it to change significantly as we expect the loan growth to be broadly matched with that of the deposits. ZKB's wholesale funding needs are moderate and diversified, and benefit from ordinary support via the bank's cantonal guarantee and investor perception of ZKB as a safe haven. ZKB's net stable funding ratio at 113% at end-1Q25 was comfortably above the regulatory requirements.

From January 2025, as a domestic systemically important bank (D-SIB), ZKB is subject to more stringent liquidity requirements, including holding liquidity reserves for a 90-day stress horizon, instead of the previous 30-day period. The bank meets this requirement through mostly high-quality liquid assets, which amounted to CHF50 billion at end-1Q25 (end-2023: CHF46 billion), the most significant portion of which was in the form of central bank deposits. ZKB's liquidity coverage ratio stood at 137% in 1Q25.

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 its *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 Basler Kantonalbank (VR: a), Raiffeisen Group (a+), UBS Switzerland AG (a), Swedbank AB (aa-) and Nykredit Bank A/S (a+).

Financials

Financial Statements

	31 Dec 21 12 months (CHFm)	31 Dec 22 12 months (CHFm)	31 Dec 23 12 months (CHFm)	31 Dec 24 12 months (CHFm)	31 Dec 25F 12 months (CHFm)	31 Dec 26F 12 months (CHFm)
Summary income statement						
Net interest and dividend income	1,287	1,421	1,870	1,737	-	-
Net fees and commissions	926	926	940	1,024	-	-
Other operating income	371	423	434	385	-	-
Total operating income	2,584	2,770	3,244	3,146	2,897	2,791
Operating costs	1,594	1,693	1,726	1,812	1,867	1,917
Pre-impairment operating profit	990	1,077	1,518	1,334	1,031	875
Loan and other impairment charges	39	18	49	57	76	37
Operating profit	951	1,059	1,469	1,277	955	838
Other non-operating items (net)	0	8	-224	12	-	-
Tax	9	8	7	169	-	-
Net income	942	1,059	1,238	1,120	840	739
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	942	1,059	1,238	1,120	-	-
Summary balance sheet						
Assets						
Gross loans	102,365	108,017	112,776	118,913	123,670	128,616
– Of which impaired	418	425	487	516	-	-
Loan loss allowances	627	612	650	692	-	-
Net loans	101,738	107,405	112,126	118,221	-	-
Interbank	3,173	2,937	3,401	3,405	-	-
Derivatives	1,272	1,190	968	2,669	-	-
Other securities and earning assets	43,645	46,520	43,351	44,147	-	-
Total earning assets	149,828	158,052	159,846	168,442	-	-
Cash and due from banks	40,883	40,302	39,706	32,733	-	-
Other assets	1,394	1,437	1,707	1,419	-	-
Total assets	192,105	199,791	201,259	202,594	207,280	212,196
Liabilities						
Customer deposits	96,777	103,351	101,452	106,980	111,259	114,597
Interbank and other short-term funding	39,300	49,791	50,131	47,749	-	-
Other long-term funding	38,608	25,473	24,864	25,300	-	-
Trading liabilities and derivatives	3,059	5,702	5,682	3,867	-	-
Total funding and derivatives	177,744	184,317	182,129	183,896	-	-
Other liabilities	1,687	2,175	3,333	2,300	-	-
Preference shares and hybrid capital	-	-	1,529	1,537	-	-
Total equity	12,674	13,299	14,268	14,861	-	-
Total liabilities and equity	192,105	199,791	201,259	202,594	207,280	212,196
Exchange rate	USD1= CHF0.9202	USD1= CHF0.9303	USD1= CHF0.8547	USD1= CHF0.8966	-	-

Source: Fitch Ratings, Fitch Solutions, ZKB

Key Ratios

	31 Dec 21	31 Dec 22	31 Dec 23	31 Dec 24	31 Dec 25F	31 Dec 26F
Ratios (%; annualised as appropriate)						
Profitability						
Operating profit/risk-weighted assets	1.3	1.4	1.9	1.5	1.3	1.1
Net interest income/average earning assets	0.9	0.9	1.2	1.1	0.9	0.8
Non-interest expense/gross revenue	62.0	61.4	53.4	57.9	64.7	69.0
Net income/average equity	7.5	8.2	9.0	7.7	-	-
Asset quality						
Impaired loans/gross loans	0.4	0.4	0.4	0.4	0.5	0.5
Growth of gross loans	5.4	5.5	4.4	5.4	4.0	4.0
Loan loss allowances/impaired loans	150.0	144.0	133.5	134.1	123.3	123.3
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.0	0.1	0.0
Capitalisation						
Common equity Tier 1 capital ratio	17.0	16.8	17.4	16.8	20.0	19.9
Fully loaded common equity Tier 1 capital ratio	-	-	-	-	-	-
Fitch core capital ratio	-	-	-	-	-	-
Tangible common equity/tangible assets	6.6	6.7	7.1	7.3	-	-
Basel leverage ratio	6.2	6.2	6.6	6.8	-	-
Net impaired loans/common equity Tier 1	-1.7	-1.5	-1.2	-1.2	-	-
Net impaired loans/Fitch core capital	-	-	-	-	-	-
Funding and liquidity						
Gross loans/customer deposits	105.8	104.5	111.2	111.2	111.2	112.2
Gross loans/customer deposits + covered bonds	94.7	93.7	99.8	100.7	-	-
Liquidity coverage ratio	160.0	146.0	147.0	142.0	-	-
Customer deposits/total non-equity funding	54.8	56.7	56.0	58.0	-	-
Net stable funding ratio	118.0	124.0	117.0	116.0	-	-

Source: Fitch Ratings, Fitch Solutions, ZKB

Support Assessment

Shareholder Support	
Parent 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

ZKB's SSR is based on support from the Canton of Zurich, the bank's guarantor and sole owner, and is equalised with the canton's IDRs. The canton guarantees all of ZKB's non-subordinated liabilities according to the ZKB Law. The canton's guarantee does not explicitly address the timeliness of support, but Fitch believes that support, if necessary, would be provided in a timely fashion, given ZKB's high importance for the canton and the potential repercussions of a failure for the Swiss financial sector.

ZKB's strategic importance is underpinned by the bank's mandate to provide financial services to individuals and companies in the canton. The bank's nationwide and international activities are limited. The Canton of Zurich's constitution also requires the canton to have a cantonal bank, making the institutional owner more likely to support the bank in financial distress.

As a D-SIB, ZKB has a Swiss emergency plan approved by FINMA. The plan requires the canton to commit a large volume of contingent capital relative to its own resources. We believe that the provision of this contingent capital, if needed, would be manageable for the canton given its strong financial position, and would not on its own drive a negative action on the canton's ratings, or trigger a reassessment of our support assumptions underpinning ZKB's IDRs.

Environmental, Social and Governance Considerations

FitchRatings **Zuercher Kantonalbank**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Zuercher Kantonalbank has 5 ESG potential rating drivers

- Zuercher 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.

			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

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.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.

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

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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