

Landesbank Baden-Wuerttemberg

Key Ratings Drivers

Landesbank Baden-Wuerttemberg's (LBBW) Long-Term Issuer Default Rating (IDR) is driven by its Shareholder Support Rating (SSR), which reflects a very high likelihood of support from the bank's owners, the regional members of Germany's savings banks group Sparkassen-Finanzgruppe (SFG; A+/Stable), the State of Baden-Wuerttemberg and the City of Stuttgart.

LBBW's Viability Rating (VR) is one notch below the implied 'bbb+', due to the bank's subdued average profitability. The VR also reflects the bank's exposure to cyclical corporate sectors, strong asset-quality metrics and adequate capitalisation. LBBW's pending acquisition of Berlin Hyp AG (A+/Rating Watch Negative) is neutral to Fitch Ratings' assessment of its standalone credit strength.

Owners' Support Highly Likely: Fitch's support assumptions are underpinned by LBBW's focus on its statutory roles, and by the statutes of the institutional protection scheme (IPS) of SFG and the Landesbanken. We use SFG's Long-Term IDR as the anchor for LBBW's support-driven ratings, because we believe support would need to come from both SFG and Baden Wuerttemberg to avoid triggering state-aid considerations and resolution if LBBW fails.

We notch LBBW's SSR down twice from SFG's 'A+' to reflect regulatory restrictions to support, due to the EU's state-aid examination requirement. The two notches also reflect LBBW's strategic, but not key and integral role, for its owners. The Short-Term IDR is the higher of two options that map to its 'A-' Long-Term IDR, because LBBW has privileged access to SFG's ample liquidity and funding, and its owners' propensity to support is more certain in the near term.

High Sector Concentrations: LBBW's strong regional corporate-banking franchise benefits from Baden Wuerttemberg's large economy. However, this regional focus leads to concentrations on cyclical industries and, to some extent, on large borrowers, in particular on the commercial real estate (CRE) and automotive sectors, although the bank is reducing its exposure to the latter. Stiff competition in most of LBBW's business lines limits the bank's pricing power and is likely to continue to weigh on its profitability.

Low Impaired Loans: LBBW's exposure to cyclical industries is higher than that of its Landesbanken peers, and its asset quality is sensitive to the ongoing global supply chain disruptions, input price shocks and structural changes. We expect its loan impairment charges (LICs) and Stage 3 loans to rise moderately in 2022 from their exceptionally low level at end-2021. However, its four-year average Stage 3 ratio should remain below 2% in the coming years, which is a rating strength.

Subdued Profits: LBBW's profitability is burdened by its high costs and low margins. We expect its operating profit/risk-weighted assets (RWAs) ratio to decline in 2022 from its exceptionally high level in 2021 due to weaker market conditions, muted loan growth and potentially higher LICs. We expect LBBW's revenue to gradually improve in the long term as the bank executes its growth strategy and interest-rate pressure eases, compensating for regulatory RWAs inflation.

Adequate Capitalisation: We expect LBBW's common equity Tier 1 (CET1) ratio to remain comfortably above its 13% target after the acquisition of Berlin Hyp is finalised. We view this level as adequate but not strong in light of LBBW's business model that exposes the bank to potential cyclical performance swings. Stronger profit retention will be key to offset higher RWAs from the bank's growth strategy and the phasing-in of the Basel output floor from 2025.

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F1
Derivative Counterparty Rating	A(dcr)
Viability Rating	bbb
Shareholder Support Rating	a-

Sovereign Long-Term IDR	AAA
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Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(November 2021\)](#)

Related Research

[Sparkassen-Finanzgruppe \(Sparkassen\) \(December 2021\)](#)

[Global Economic Outlook \(March 2022\)](#)

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Rating Sensitivities

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

A downgrade of SFG's IDRs, or a change in LBBW's ownership or in its owners' strategic commitment to the bank could lead to a downgrade of LBBW's IDRs and SSR. LBBW's VR has sufficient headroom at the current level to absorb a moderate deterioration of its asset quality and capitalisation. The VR would likely be downgraded if we expect the bank's Stage 3 loans ratio to rise to and remain above 3%, or if the CET1 ratio falls durably below 12.5%.

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

An upgrade of LBBW's IDRs and SSR would require an upgrade of SFG's ratings. An upgrade of the bank's VR would require a limited impact from the economic fallout of the Ukraine-Russia conflict on the bank's asset quality and capitalisation. An upgrade would also be contingent on a sustainable improvement in LBBW's profitability, with an average operating profit/RWAs ratio close to 1%, without a material increase in risk appetite.

Other Debt and Issuer Ratings

Rating Level	Rating
Deposits	A/F1
Senior Preferred	A/F1
Senior Non-Preferred	A-
State-Guaranteed Senior Unsecured	AAA
Tier 2 Subordinated	BB+
State-Guaranteed Tier 2 Subordinated	AAA

Source: Fitch Ratings

LBBW's long-term deposit rating, senior preferred debt rating and Derivative Counterparty Rating (DCR) are one notch above the bank's Long-Term IDR because of the protection provided to preferred creditors by its resolution buffers. Its senior non-preferred (SNP) debt rating is in line with its Long-Term IDR for the same reason.

LBBW's short-term senior preferred and deposit ratings are the lower of the two options that map to the respective 'A' long-term ratings. This is because, despite the owners' very high support propensity, the lengthy process required to support a Landesbank could impede the prompt flow of funds that we would expect for a 'F1+' short-term rating.

The 'AAA' of LBBW's grandfathered state-guaranteed senior unsecured and Tier 2 subordinated notes reflect our view of the creditworthiness of the guarantor, Baden Wuerttemberg, which is closely linked to that of Germany (AAA/Stable). We believe the grandfathered guarantee similarly protects senior and subordinated debt because the statutory guarantor's liability (Gewehrtraegerhaftung) does not differentiate among seniorities. In our view, regulatory and EU state-aid frameworks do not constrain the level of support for grandfathered debt.

LBBW's non-guaranteed Tier 2 subordinated debt is rated two notches below the VR to reflect loss severity that is in line with Fitch's baseline approach.


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

We would downgrade LBBW's DCR, senior debt and deposit ratings if LBBW's Long-Term IDR is downgraded or if the sum of SNP and more junior debt falls below 10% of RWAs. A downgrade of LBBW's VR would result in a downgrade of the non-guaranteed Tier 2 subordinated notes. The ratings of the state-guaranteed senior unsecured and Tier 2 subordinated notes are sensitive to adverse changes in our view of Baden Wuerttemberg's creditworthiness.

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

An upgrade of LBBW's DCR, senior debt and deposit ratings would require an upgrade of its Long-Term IDR. An upgrade of LBBW's VR would result in an upgrade of the non-guaranteed Tier 2 subordinated notes. The guaranteed notes are at the highest level on Fitch's scale and cannot be upgraded.

Rating Navigator

Landesbank Baden-Wuerttemberg							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Shareholder Support Rating	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A- Sta
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							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 - Key Rating Drivers Adjustments

The business profile score of 'bbb' has been assigned below the 'a' category implied score, due to the following adjustment reason: business model (negative).

The Asset Quality score of 'bbb+' has been assigned below the 'aa' category implied score, due to the following adjustment reason: concentrations (negative).

The Capitalisation and Leverage score of 'bbb+' has been assigned below the 'a' category implied score, due to the following adjustment reason: internal capital generation and growth (negative).

The Funding and Liquidity score of 'bbb+' has been assigned below the 'a' category implied score, due to the following adjustment reason: deposit structure (negative).

Company Summary and Key Qualitative Factors

Medium-Sized Commercial Bank with Regional Corporate Focus

LBBW is a publicly-owned wholesale bank that focuses on corporate and asset-based finance in addition to its statutory roles as the core bank for Baden-Wuerttemberg's public sector and central institution for the savings banks in Baden-Wuerttemberg, Rhineland-Palatinate and Saxony. The size and profit contribution of its retail activities, which are primarily concentrated in Stuttgart and other locations in Baden Wuerttemberg, are moderate. LBBW's strong regional corporate banking franchise benefits from Baden Wuerttemberg's large economy, which is similar in size to Belgium's. However, this regional focus leads to large concentrations in cyclical industries and, to some extent, on large borrowers, in particular in the CRE, automotive and consumer goods sectors.

LBBW's nationwide franchise is weaker. Strong competition in most of its business lines limits its pricing power and weighs on its profitability. Its modest international franchise is largely concentrated in Western Europe, but the bank supports its corporate clients globally in key international financial centres. Its client-driven capital markets business is a sizeable but volatile revenue source. In 2021, LBBW acquired from other Landesbanken and from Hamburg Commercial Bank the interest rate, currency and commodities management business for savings banks' corporate clients. We believe that this is not a material addition to LBBW's business volumes or revenues, but strengthens the bank's role as the main centre of competence and infrastructure provider for capital market activities within SFG.

We view positively LBBW's gradual reduction of its automotive exposure and its expansion into sectors where it had been previously less active, such as pharmaceuticals/health care, TMT, electronics and utilities, as this increases diversification.

Financial Key Rating Drivers

Solid Asset Quality

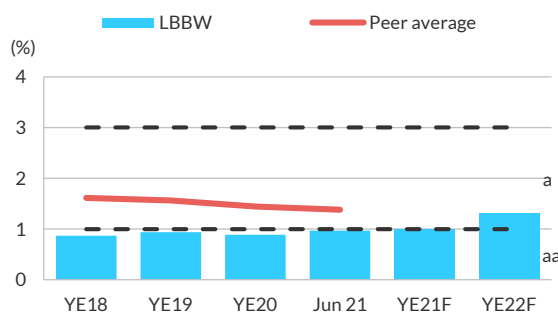
LBBW's impaired loans ratio of 0.97% at end-1H21 is among the lowest in Germany. It reflects a decade of a benign German economy followed by extensive fiscal and legislative measures implemented by the German government to support companies and households affected by the pandemic crisis. These two factors drove the number of corporate insolvencies to a record low in 2021 and maintained LBBW's Stage 3 loans volume close to its end-2019 level. We expect impaired loans to moderately increase in the next two years but to remain manageable for the bank despite the risk of spill-over effects from the Ukrainian conflict on the post-pandemic economic recovery in Germany.

Impaired loans are fully covered by loan loss allowances, which LBBW boosted with cautious collective transfers of its pandemic-exposed portfolios to Stage 2 in 2020 and 2021. The bank's Stage 2 exposure ratio of 13% at end-1H21 was the highest in its peer group, but we believe this does not indicate heightened risk because more than half of the exposure classified as Stage 2 was internally rated investment-grade.

LBBW's large corporate loan book is reasonably diversified by sector. However, the bank's exposure to cyclical industries, in particular automotive, CRE and industrial goods, is higher than that of its peers. This exposes its asset quality to global supply chain disruptions, input price shocks and structural changes (e.g., electric vehicles, working from home, online shopping). LBBW is gradually reducing its automotive portfolio (EUR10.4 billion net exposure at end-1H21; 84% of CET1) by reducing new business with suppliers specialised in combustion engines.

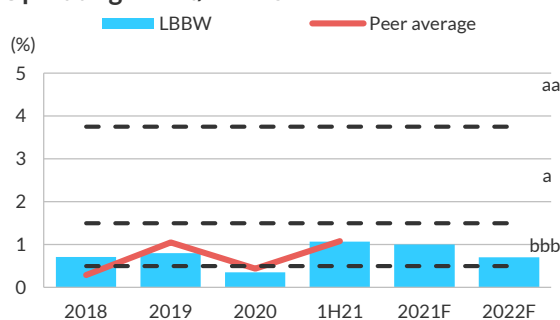
LBBW's gross CRE exposure will increase to more than 4x CET1 after closing the acquisition of Berlin Hyp. The acquisition will not significantly change the composition of the group's CRE portfolio, as both banks focus on residential and office buildings primarily in Germany. Both banks' portfolios were adequately collateralised (average loan-to value below 55%) and had an impaired loans ratio significantly below 1% at end-1H21. LBBW also benefits from Berlin Hyp's presence in France and Benelux, which complements LBBW's foreign businesses in the UK and North America.

Impaired Loans/Gross Loans



Source: Fitch Ratings, banks

Operating Profit/RWAs



Source: Fitch Ratings, banks

Profitability Remains Key Weakness and Constrains the VR

LBBW posted a record high pre-tax profit of EUR817 million in 2021, in line with the performance of German peers. Revenue increased by 11% owing to robust loan growth, a substantial one-off gain from the bank's participation in central bank tenders and strong capital markets. IT investments contributed to a 2.5% increase in expenses.

At the beginning of 2021, LBBW announced the reduction of 700 full-time equivalent staff by 2024 following similar steps by several domestic peers before the crisis. This measure aims at cutting costs by EUR100 million compared with 2019. However, we expect that LBBW will continue to operate at a relatively high cost/income ratio due to inflationary pressures, combined with investments in the bank's focus areas and higher levies.

In the long term, LBBW targets a cost-income ratio under 60% and a pre-tax return on equity of about 6%. The strategy relies on growing business and margins. In particular, LBBW plans to increase and diversify its revenue by gaining market shares in corporate finance, debt capital markets and asset and wealth management, benefitting from its strengthened positioning as a bank for sustainable credit and investments.

However, we view these plans as challenging due to competition from domestic and foreign players. In addition, muted corporate demand due to global supply chain disruptions and high energy prices, pressure on capital markets and lasting low real interest rates are likely to weigh on LBBW's revenue in 2022.

Berlin Hyp's operating profit/RWAs ratio has been twice that of LBBW on average in the past four years due to Berlin Hyp's lower LICs, funding costs and administrative expenses. However, we expect Berlin Hyp's consolidation to increase LBBW's operating profits/RWAs by less than 10bp, which remains in line with LBBW's earnings and profitability score. We do not expect material cost synergies between LBBW and Berlin Hyp in the medium term.

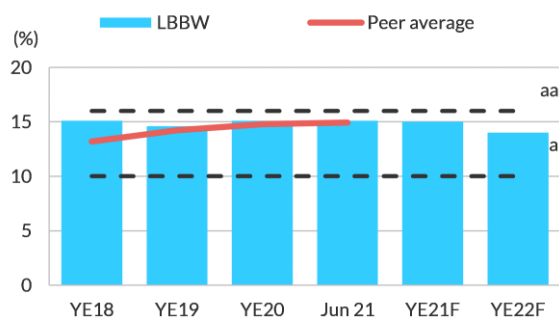
Robust Capitalisation

LBBW's capital ratios have sufficient buffers over regulatory requirements to absorb potential cyclical performance swings. LBBW's fully-loaded CET1 ratio of 14.6% at end-2021 does not include the 2021 retained profit. We expect the ratio to remain comfortably above the bank's strategic target after the acquisition of Berlin Hyp is finalised and to remain between 13.5% and 14.5% in the medium term.

LBBW's total capital ratio of 21.4% at end-2021 benefits from its large Tier 2 debt buffer. We expect this buffer to decline gradually as the bank is likely to replace maturing Tier 2 with cheaper SNP debt. LBBW's fully-loaded Basel leverage ratio of 5% at end-2021 will decline below that of higher rated peers after the consolidation of Berlin Hyp.

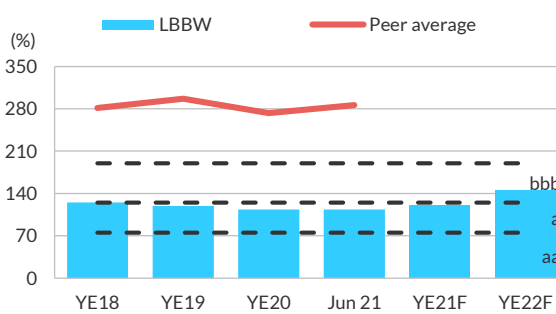
We believe that profit retention will improve in the long term along with earnings, assuming LBBW will continue to distribute EUR200-EUR300 million a year. Stronger profit retention will be key to offset higher RWAs from the execution of the bank's growth strategy and the phasing-in of the Basel output floor starting in 2025.

Phased-In CET1 Ratio



Source: Fitch Ratings, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, banks

Funding and Liquidity Profile Benefits from Close Links with SFG

LBBW's reliance on wholesale deposits and market funding is mitigated by its membership in SFG's institutional support scheme. This ensures a nationwide privileged access to the savings banks' excess liquidity. At the same time, about a third of LBBW's deposits from banks are pass-through funding from development banks. LBBW also has a well-established capital markets franchise across a diversified range of products. The bank significantly exceeds its minimum requirement for own funds and eligible liabilities of 24.83% of RWAs owing to its large stock of legacy SNP debt. As legacy SNP debt matures, we expect the resolution buffers to decline gradually but to remain comfortably above required levels.

LBBW's mortgage and public covered pools of EUR28 billion at end-2021 also ensure a source of stable funding and liquidity if market conditions worsen. Berlin Hyp's inclusion will further increase the share of covered bonds in the group's funding mix.

LBBW's cash and liquidity portfolios exceeded EUR80 billion at end-2021. We expect the bank's liquidity to remain substantial enough to withstand reasonable unexpected outflows despite a likely gradual decline as the central bank tenders (TLTRO, EUR28 billion at end-1H21) mature.

Financials

	30 Jun 21		31 Dec 20	31 Dec 19	31 Dec 18	31 Dec 17
	6 months - interim	6 months - interim	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	1,219	1,026	1,771	1,676	1,558	1,587
Net fees and commissions	349	294	538	558	513	473
Other operating income	207	174	381	467	503	665
Total operating income	1,775	1,494	2,690	2,701	2,574	2,725
Operating costs	1,192	1,003	1,861	1,908	1,863	2,077
Pre-impairment operating profit	595	501	829	793	711	648
Loan and other impairment charges	75	63	545	151	142	92
Operating profit	521	438	284	642	569	556
Other non-operating items (net)	0	0	-32	-30	-11	-41
Tax	172	145	80	168	138	96
Net income	336	283	172	444	420	419
Other comprehensive income	178	150	-7	-175	-222	37
Fitch comprehensive income	515	433	165	269	198	456
Summary balance sheet						
Assets						
Gross loans	125,701	105,773	104,481	102,774	98,133	97,502
- of which impaired	1,225	1,031	935	968	854	996
Loan loss allowances	1,399	1,177	1,077	877	849	679
Net loans	124,302	104,596	103,404	101,897	97,284	96,823
Interbank	46,327	38,983	58,274	44,409	39,076	38,031
Derivatives	24,164	20,333	25,369	22,047	18,036	20,309
Other securities and earning assets	87,786	73,869	70,678	65,037	58,093	56,308
Total earning assets	282,579	237,781	257,725	233,390	212,489	211,471
Cash and due from banks	71,859	60,467	13,650	18,331	24,721	22,729
Other assets	7,002	5,892	5,074	4,909	4,004	3,513
Total assets	361,440	304,140	276,449	256,630	241,214	237,713
Liabilities						
Customer deposits	110,855	93,281	92,101	85,989	78,424	74,090
Interbank and other short-term funding	120,031	101,002	79,229	68,069	63,881	62,322
Other long-term funding	78,103	65,716	55,854	46,748	47,002	53,590
Trading liabilities and derivatives	28,914	24,330	29,508	34,202	32,388	28,162
Total funding and derivatives	337,864	284,302	256,692	235,008	221,695	218,164
Other liabilities	5,476	4,608	4,815	6,614	5,259	5,068
Preference shares and hybrid capital	1,952	1,642	1,695	1,830	1,081	1,104
Total equity	16,116	13,561	13,247	13,178	13,179	13,377
Total liabilities and equity	361,440	304,140	276,449	256,630	241,214	237,713
Exchange rate		USD1 = EURO.841468	USD1 = EURO.821963	USD1 = EURO.89015	USD1 = EURO.873057	USD1 = EURO.83382

Source: Fitch Ratings, Fitch Solutions, LBBW

Summary Financials and Key Ratios

	30 Jun 21	31 Dec 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	1.1	0.4	0.8	0.7	0.7
Net interest income/average earning assets	0.8	0.7	0.7	0.7	0.7
Non-interest expense/gross revenue	67.0	69.3	70.8	73.1	77.1
Net income/average equity	4.3	1.3	3.4	3.2	3.2
Asset quality					
Impaired loans ratio	1.0	0.9	0.9	0.9	1.0
Growth in gross loans	1.2	1.7	4.7	0.7	-1.4
Loan loss allowances/impaired loans	114.2	115.2	90.6	99.4	68.2
Loan impairment charges/average gross loans	0.1	0.5	0.2	0.2	0.1
Capitalisation					
Common equity Tier 1 ratio	15.1	15.1	14.6	15.1	15.8
Tangible common equity/tangible assets	4.4	4.7	5.0	5.3	5.4
Basel leverage ratio	4.5	4.5	4.6	4.7	4.6
Net impaired loans/common equity Tier 1	-1.2	-1.1	0.8	0.0	2.7
Funding and liquidity					
Gross loans/customer deposits	113.4	113.4	119.5	125.1	131.6
Liquidity coverage ratio	131.6	135.4	123.6	114.8	145.8
Customer deposits/total non-equity funding	34.6	39.1	39.7	38.2	37.0
Source: Fitch Ratings, Fitch Solutions, LBBW					

Support Assessment

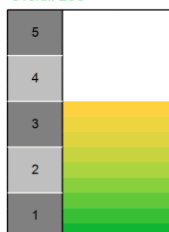
Shareholder Support Rating KRDs	
Shareholder IDR	A+
Total Adjustments (notches)	-2
Shareholder Support Rating:	a-
Shareholder ability to support	
Shareholder Rating	A+/ Stable
Shareholder regulation	2+ Notches
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	1 Notch
Integration	2+ Notches
Support record	Equalised
Subsidiary performance and prospects	1 Notch
Legal commitments	1 Notch

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

LBBW's SSR reflects a strong likelihood of support from SFG, Baden-Wuerttemberg and Stuttgart. Our support assumptions are underpinned by LBBW's statutory roles and by its membership in SFG's IPS. We derive LBBW's support-driven ratings from SFG's Long-Term IDR as we believe support would need to come from both SFG and Baden Wuerttemberg to avoid triggering state-aid considerations and resolution if LBBW fails. We notch LBBW's SSR down twice from SFG's 'A+' to reflect regulatory restrictions to support due to the EU's requirement for state-aid examination. The two-notch difference also reflects LBBW's strategic, but not key and integral role, for its owners.

Environmental, Social and Governance Considerations

Overall ESG

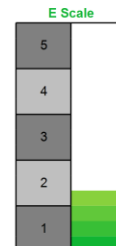


How relevant are E, S and G issues to the overall credit rating?

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.

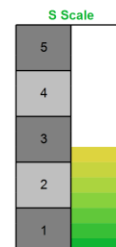
Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
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



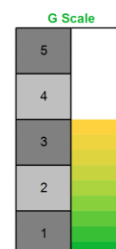
Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
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



Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
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
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)



Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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.

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