FitchRatings

Banks
Wholesale Commercial Banks
Germany

Berlin Hyp AG

Key Rating Drivers

Savings Banks' Support Drives IDRs: Berlin Hyp AG's Issuer Default Ratings (IDRs) are aligned with those of the German savings banks (Sparkassen-Finanzgruppe, SFG; A+/Stable) to reflect Fitch Ratings' opinion that support from SFG would be highly likely, if required. This reflects Berlin Hyp's membership in SFG's mutual support scheme as well as SFG's ownership of Berlin Hyp via its immediate parent Landesbank Berlin Holding AG.

Very High Likelihood of Support: SFG's propensity to support Berlin Hyp is very high, in our view, since a failure to do so would damage SFG's reputation and its mutual support scheme's credibility. Any necessary support would be immaterial relative to SFG's strong financial profile, given Berlin Hyp's small relative size (its equity equals 1% of SFG's equity). We believe SFG would be able to devise adequate and timely support measures, if needed.

Monoline CRE Lender: Berlin Hyp's Viability Rating (VR) reflects its business model as a specialised lender focused on the cyclical commercial real-estate (CRE) sector, predominantly in Germany. Its resilient performance and sound risk appetite mitigate this concentration.

Sound Asset Quality: Berlin Hyp's asset quality is stronger than those of its CRE peers and of the German banking sector. Its non-performing loans (NPLs) ratio has steadily declined over the past decade, underpinned by the benign economic environment. However, the bank's inherently high single-borrower concentration constrains our assessment of its asset quality.

Profit Erosion Likely: Berlin Hyp's operating profit peaked in 2018, but we believe it will decline to more sustainable levels as several effects that drove its sound average operating return on risk-weighted assets (RoRWAs) of 2% since 2017 will not recur. This will limit the bank's ability to offset the low rates and competitive pressure while its revenue mix has become increasingly reliant on net interest income (NII).

Early repayments of higher-margin loans are declining but continue to weigh on profits. Most old, long-dated own debt carrying high coupons has already matured. A cooling economy and a low stock of NPLs make releases of loan-loss reserves and strong loan growth increasingly unlikely.

RWA Inflation Requires Moderate Pay-Outs: Berlin Hyp has stabilised its common equity Tier 1 (CET1) ratio in the past few years by retaining almost half of its robust operating profits to match the RWA inflation triggered by a partial shift to CRE loans from public-sector loans and securities. In our view, the bank will need to maintain low profit distribution to mitigate the RWA inflation from Basel IV, to which its monoline CRE lending model is particularly exposed.

Sound Funding and Liquidity: Berlin Hyp sources its purely wholesale funding (unsecured debt and mortgage Pfandbriefe) from a diversified institutional investor base. Its membership in SFG's mutual support scheme ensures a 0% regulatory risk weight for its intragroup unsecured debt issuance and, consequently, privileged access to SFG's vast excess liquidity.

Rating Sensitivities

Weakening Integration Within SFG: Berlin Hyp's IDRs are primarily sensitive to changes in SFG's ratings. Changes in its ownership structure, its strategic relationship with SFG or its membership in SFG's mutual support scheme could also result in lower IDRs.

German CRE Market Disruptions: The VR's upside is limited given the bank's high reliance on domestic CRE, which constrains diversification. Disruptions in the property market could trigger a VR downgrade if this significantly affects the bank's earnings and asset quality.

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1+

Local Currency

Viability Rating	bbb
Support Rating	1

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	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 (October 2018)

Short-Term Ratings Criteria (May 2019)

Related Research

Fitch Affirms Sparkassen Finanzgruppe at 'A+'; Outlook Stable (September 2019)

Fitch Ratings 2020 Outlook: Western European Banks (December 2019)

Fitch Affirms Germany at 'AAA': Outlook Stable (January 2020)

Fitch Affirms Berlin Hyp's Long-Term IDR at 'A+'; VR at 'bbb' (January 2020)

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Issuer Ratings (Including Major Issuing Entities)

Rating level	Rating
Long-Term Issuer Default Rating	A+
Short-Term Issuer Default Rating	F1+
Viability Rating	bbb
Support Rating	1
Outlook/Watch	Stable

Source: Fitch Ratings

Debt Rating Classes

Rating level	Rating
Deposit Rating	A+/F1
Senior Preferred	A+
Senior Non-Preferred	A+

Source: Fitch Ratings

Preferred Ratings Aligned with IDRs

We do not notch up Berlin Hyp's long-term senior preferred (SP) debt and deposit ratings from its Long-Term IDR despite its very large senior non-preferred (SNP) debt buffer. This is because, in our view, this buffer does not offer additional benefit above the strong support already factored into the IDRs. The SNP and SP debt ratings are primarily sensitive to changes in the bank's IDRs.

Ratings Navigator – Standalone Assessment

Institutional Support Assessment

Institutional Support			Value
Parent IDR			A+
Total Adjustments (notches)			+0
Institutional Support:			**A+**
Support Factors (negative)	**Equalised**	**1 Notch**	**2+ Notches**
Parent ability to support and subsidiary ability to use support			
Parent/group regulation		✓	
Relative size	✓		
Country risks	✓		
Parent Propensity to Support			
Role in group		✓	
Potential for disposal		✓	
Implication of subsidiary default	✓		
Integration		✓	
Size of ownership stake	✓		
Support track record	✓		
Subsidiary performance and prospects	✓		
Branding	✓		
Legal commitments		✓	
Cross-default clauses			✓

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive ⇩ Negative

⇳ Evolving ▫ Stable

SFG's Support Drives Berlin Hyp's IDRs and Senior Debt Ratings

Berlin Hyp is a core service and product provider to SFG. Support for the bank is likely to come collectively from SFG through Landesbank Berlin Holding AG, a non-operating holding company, whose only assets are its stakes in Berlin Hyp and Berliner Sparkasse (Berlin's savings bank, which focuses on retail and small SME banking). We view a sale of Berlin Hyp as highly unlikely in the foreseeable future, although a sale would not significantly alter SFG's franchise.

Significant Changes

Strongly Improved NIM Against the Banking Sector's Trend

Berlin Hyp's average funding costs declined to very low 23bp at end-1H19 from 78bp in 2016. Against the trend prevailing in the banking sector, its net interest margin (NIM) has doubled over the past six years as a large stock of old, long-dated debt issues carrying high coupons matured. The bank has also benefitted to a lower extent from higher interest revenue driven by the growth of its CRE loan book in 2017 and 9M19. It has gradually replaced lower-margin public-sector loans and securities with more remunerative CRE loans over the past decade, doubling the share of CRE loans to 78% of its total assets at end-3Q19 from 40% at end-2010.

Performance Likely to Normalise to a Lower but More Sustainable Level

We do not expect these developments to generate further tailwind in 2019 and beyond, as Berlin Hyp's flattening NIM in 9M19 suggests. Consequently, the low-interest-rate environment and the intense competition in German CRE lending are likely to start eroding the bank's NIM. Cautious growth in selected foreign markets could mitigate this pressure, in our view, as the bank's foreign CRE loan portfolios tend to yield higher margins than its domestic business.

Business Model Remains Highly Reliant on NII

As the interest margin improved, fee income declined over the past two years due to a 2017 ruling by the German federal court of justice, which has constrained the use of loan processing fees. Both effects have increased the bank's reliance on NII, which accounted for a very high 96% of total revenue in 9M19, up from almost 90% in recent years.

Release of Loan-Loss Reserves Unlikely to Continue

Net releases of loan-loss reserves on the back of the benign operating environment have also contributed to improving Berlin Hyp's RoRWAs since 2017, despite the RWA inflation driven by the partial shift from public-sector to CRE assets. However, releases of loan loss reserves are unlikely to bring further relief in the next years due to the bank's already very low stock of NPLs (EUR183 million) at end-3Q19 and the cooling German economy. Risk costs already flattened in 9M19 and contributed, together with some operating cost inflation, to halve the bank's operating profit yoy. In addition, the low interest-rate environment and borrowers' comfortable liquidity weigh on the bank's NIM by driving early repayments of older, higher-margin loans, although these early repayments are declining.

We expect Berlin Hyp to achieve its operating return-on-equity target of above 10% in 2019, substantially below the strong 2017-2018 but well above most German banks, despite these challenges.

Company Summary and Key Qualitative Assessment Factors

Accommodating Monetary Policy Boosts Demand for German CRE

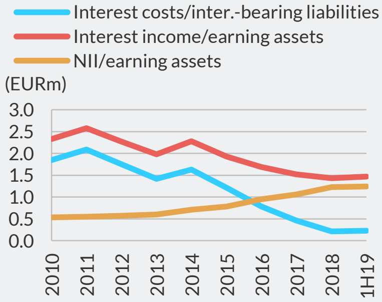
German CRE investments rose by 1% yoy from a very high level to EUR57 billion in 9M19, a third of which came from foreign investors, whose demand remains strong. This reflects the robust economy, sound fundamentals and perception as a relatively safe haven for long-term investments amid geopolitical uncertainties. It also reflects the property market's resilience and reasonable valuations by international comparison, despite strong price increases over the past decade. Demand is strong for office properties, the main CRE asset class with 36% of total investment volumes. Limited supply and strong competition among buyers erode rental yields.

In 2Q19, Berlin's senate passed a bill to cap rents on flats in the city. The law is due to become effective in 1Q20, but its constitutionality has yet to be confirmed. It could ultimately negatively affect investments and valuations in Berlin's housing market, which is important for Berlin Hyp.

Sustainability Considerations Increasingly Critical for CRE Lenders

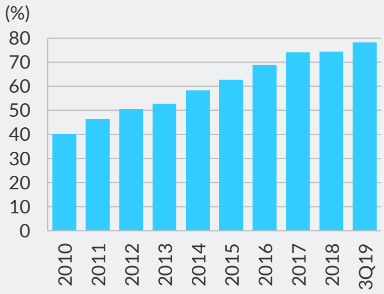
The German government has recently agreed a EUR54 billion investment programme to help contain companies' and households' CO_2 emissions. The plan will be partially funded by levying dedicated fees from key sectors such as transport and energy. CRE has not yet been earmarked, but as public discussions and political agendas increasingly focus on climate change, we view the application of similar measures to the CRE sector as increasingly likely.

Strongly Improved NIM



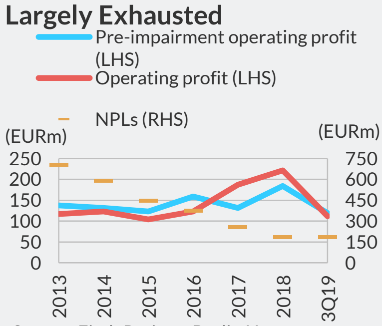
Source: Fitch Ratings, Berlin Hyp

CRE Loans/Total Assets



Source: Fitch Ratings, Berlin Hyp

Potential for LIC Releases Largely Exhausted



Source: Fitch Ratings, Berlin Hyp

Sustainability aspects can already affect CRE lenders' credit risk, notably because the energy efficiency of financed properties will increasingly influence the sustainability of collateral values. The importance of embedding these aspects in banks' valuation, underwriting and monitoring processes will rise, in our view. We believe Berlin Hyp is well-positioned compared with peers.

Weakening German Economic Outlook

Germany's GDP growth decelerated sharply to 1.4% in 2018, the weakest growth since 2013, and contracted by 0.1% in 2Q19. Fitch forecasts a further deceleration to 0.6% in 2019, mainly due to cooling world trade and uncertainty, mostly for German manufacturers, around potential US tariffs on cars, weak Chinese growth and post-Brexit trade agreements with the UK.

CRE Lender Integrated into the Savings Banks Organisation

Berlin Hyp accounts for only 2% of SFG's total assets, but its product range allows the savings banks to participate in collateralised lending outside their regions without violating the savings banks laws that restrict their operations to their local areas. Berlin Hyp's intensifying cooperation with savings banks supports its cohesion with SFG and enhances its loan origination potential.

Concentrates on Standard Property Types and Increasingly on Green Assets

Berlin Hyp primarily focuses on domestic CRE financing. The Berlin region accounts for a fairly high 16% of its German exposure. Its mix of investment financing for office, residential, retail and other properties, in particular in larger cities, is reasonably conservative. It has a selective approach to foreign business and focuses on lower-risk properties in capital regions. The bank aims for 20% of its loan portfolio to qualify as 'green' (i.e. buildings compliant with energy-efficiency criteria such as energy consumption thresholds) by end-2020, up from 18% in 3Q19.

Sound Execution

Management has successfully de-risked and de-leveraged Berlin Hyp and reduced its stock of NPLs to a very low level while maintaining stable profits in recent years. It has a sound record of optimising processes via digitalisation and IT investments, notably by implementing a new core bank system. It pursues diverse strategic initiatives, including capital efficiency measures such as syndications to SFG, within its newly founded portfolio management unit.

Generally Prudent Approach Mitigates Higher-Risk Profile of Asset-Class CRE

Berlin Hyp's underwriting standards are reasonably prudent, with stricter requirements for foreign exposure. The risk/return profile of the new business originated in recent years appears reasonable and consistent over time, despite the intense competition. The bank avoids asset classes that are not identified as core areas of expertise. Its risk-management framework appears suitable to monitor the comprehensive range of risks inherent in CRE. Its underwriting primarily relies on borrowers' or the financed property's debt service capacity, not on collateral values. The bank's risk appetite also benefits from the conservative eligibility criteria for German covered bonds, similar to other German CRE lenders, which are its primary funding source.

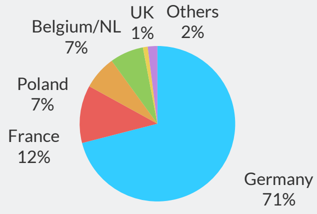
However, Berlin Hyp is significantly more exposed to development loans (18% at end-2018) than peers. We recognise the bank's expertise, but we generally associate development CRE with significantly higher risk than cash-flow generating investment properties. Development assets are also more vulnerable to cyclical downturns and tightening of lending conditions.

SFG's risk-averse culture strongly influences the risk appetite of Berlin Hyp, whose operations are monitored by an independent advisory council that comprises board members of savings banks. Material changes to Berlin Hyp's risk standards or strategic priorities require SFG's support. For instance, we believe that the savings banks, whose operations are purely domestic, are particularly conservative when determining Berlin Hyp's foreign business strategy.

Limited Market Risk

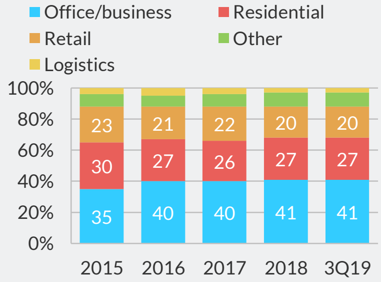
Fair-value-driven volatility in Berlin Hyp's income statement is largely limited to interest-rate and credit-spread risks in its portfolio of high-quality liquid assets, given that it is a non-trading bank reporting under German GAAP only. The bank hedges its foreign-currency exposures, leaving no open-currency positions. However, we believe that Berlin Hyp, unlike other monoline CRE lenders, has significant interest-rate risk in its banking book, which leaves the bank exposed to a potential sudden rise in interest rates.

Real Estate Portfolio Breakdown by Country
End-September 2019



Source: Fitch Ratings, Berlin Hyp

Real Estate Portfolio
Breakdown by type



Source: Fitch Ratings, Berlin Hyp

Key Financial Metrics – Latest Developments

Sound and Stable Loan Book Quality

Berlin Hyp's NPLs have decreased in recent years and are now at historically low levels. Reserve coverage is reasonably good despite significant net releases of EUR183 million between 2017 and 1H19 and benefits from benign economic conditions. The focus on CRE leads to high risk concentrations in the bank's loan portfolio. This is mitigated by its granular tenant structures, conservative collateral valuation and the bank's focus on standard property types in more resilient locations.

Berlin Hyp's business originated in cooperation with savings banks tends to reduce concentrations as it is typically more granular than the bank's overall loan stock. Average loan-to-values s are adequate, with 57% in Germany and ranging from 44%-61% in foreign markets at end-1H19. The presence of 'green' loans for energy-efficient housing is neutral in terms of credit risk, in our view. This is because Fitch does not have sufficient empirical data to show that these loans perform better than conventional loans with similar characteristics.

Low-Risk Securities Portfolio

We do not expect material risks to arise from Berlin Hyp's securities portfolio of EUR3.6 billion at end-1H19, which is dominated by government (46%) and covered (42%) bonds. Senior unsecured bonds (including from corporates) are 12% of securities. Germany (29%) and Scandinavia (21%) are the main regions, while supranationals are another 24%. There are no structured securities, non-investment-grade issuers or southern European sovereigns.

RWA Increase Requires Strengthening of Reserves

Berlin Hyp's capitalisation is adequate in light of its sound asset quality. Since end-2016, its RWAs have risen by 24% despite roughly stable total assets. This mainly reflects a partial shift to CRE loans from low risk-density public-sector loans and securities.

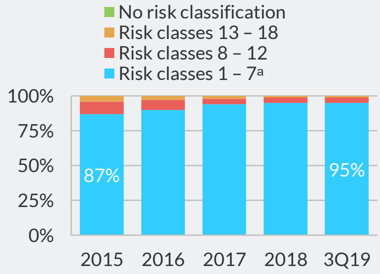
The bank has matched this increase by allocating EUR293 million to its reserves for general banking risks ('Other non-operating income and expenses' in the income statement below) during the period. It uses these reserves to build up capital to circumvent a profit-and-loss transfer agreement (PLTA) that would otherwise prevent internal capital generation as it obliges the bank to upstream its full annual profits to its direct parent. After allocations to reserves, Berlin Hyp passes on the remaining share of its operating profits to its owners through the PLTA ('Net Income' in the income statement at the end of the report).

CRE Business Model Sensitive to Substantial RWA Inflation from Basel IV

We estimate that the Basel IV RWA output floor that will be phased in from 2022 to 2027 could inflate Berlin Hyp's RWA by up to 25%. This would be significantly above the average expected for the broader banking sector. This above-average sensitivity is driven by the bank's focus on income-producing CRE lending and by its use of internal rating models, which resulted in a moderate RWA density of 36% at end-1H19.

In light of its historical performance, the bank should comfortably generate by 2027 the EUR300 million of retained earnings necessary to maintain a CET1 ratio of about 13%. The cooling mid-term economic outlook is likely to weigh not only on earnings generation, but also on loan demand. This should restrain organic RWA growth. We are also confident that capital injections from SFG would be available, should a prolonged and severe downturn prevent sufficient internal capital generation.

Loan Exposure
Breakdown by risk classes



[a] Investment grade
Source: Fitch Ratings, Berlin Hyp

Established Covered Bond Franchise and Unsecured Funding Access to SFG

Berlin Hyp is purely wholesale-funded and benefits from its privileged access to SFG's large excess liquidity. Savings banks purchase a large proportion of its unsecured debt, which carries a 0% regulatory risk weight for members of SFG's mutual support scheme. The bank also aims to expand its already broad investor base outside SFG by issuing green Pfandbriefe.

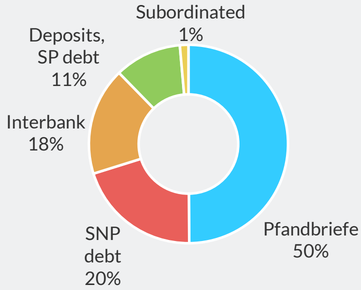
We expect the resolution authority to communicate Berlin Hyp's individual requirement for own funds and eligible liabilities (MREL) fairly soon. The bank's stock of MREL-eligible debt (predominantly EUR5.3 billion of SNP bonds) was a very high 70% of RWAs at end-1H19, similar to other monoline CRE lenders. We expect Berlin Hyp to retain a comfortable buffer over its MREL, even though it is likely to replace most of the existing excess buffer with cheaper senior preferred bonds as the legacy SNP debt matures.

Adequate Liquidity Against the Background of SFG's Support

Berlin Hyp manages its liquidity prudently and aims to maintain its liquidity coverage ratio (LCR) above 120%. Its average liquidity cushion of EUR1.6 billion in 2018 was equivalent to 26% of its short-term funding at end-2018. This is adequate, in our view, as most interbank funding is from members of SFG's mutual support scheme, which ensures above-average stability. Its LCR is consistently well above requirements, but large bonds can induce some temporary volatility as they mature. SFG's backing allows the bank to optimise the size of its liquidity buffer to minimise the drag on earnings from excess liquidity amid the low interest-rate environment.

Funding Breakdown

Total funding: EUR25bn at end-3Q19



Source: Fitch Ratings, Berlin Hyp

Summary Financials and Key Ratios

	30 Sep 2019 9 months - 3rd quarter (EURm)	31 Dec 2018 Year end (EURm)	31 Dec 2017 Year end (EURm)	31 Dec 2016 Year end (EURm)
Summary income statement				
Net interest & dividend income	238	316	271	256
Net fees and commissions	13	23	39	43
Other operating income	-8	14	10	11
Total operating income	243	352	320	310
Operating costs	125	168	188	151
Pre-impairment operating profit	119	184	131	159
Loan & other impairment charges	7	-37	-56	36
Operating profit	112	222	188	123
Other non-operating items (net)	-68	-105	-70	-50
Net income	44	116	117	73
Summary balance sheet				
Gross loans	21,948	20,955	21,089	19,527
- Of which impaired	183	183	256	376
Loan-loss allowances	n.a.	90	115	158
Net loans	21,948	20,865	20,974	19,370
Interbank	463	1,011	442	552
Other securities & earning assets	4,009	3,073	4,626	5,782
Total earning assets	26,420	24,949	26,043	25,703
Cash & due from banks	160	1,815	544	9
Other assets	842	415	537	642
Total assets	27,422	27,178	27,123	26,354

Summary Financials and Key Ratios (Cont.)

	30 Sep 19	31 Dec 18	31 Dec 17	31 Dec 16
	9 months - 3rd quarter	Year end	Year end	Year end
	(EURm)	(EURm)	(EURm)	(EURm)
Liabilities				
Customer deposits	2,286	2,476	3,052	2,073
Interbank & other short-term funding	4,433	3,719	4,453	4,814
Other long-term funding	18,545	18,880	17,480	17,472
Total funding	25,264	25,075	24,984	24,359
Other liabilities	826	839	980	907
Total equity	1,332	1,264	1,159	1,089
Total liabilities & equity	27,422	27,178	27,123	26,354
Ratios (annualised as appropriate)				
Profitability				
Operating profit/RWAs	1.5	2.4	2.1	1.5
NII/average earning assets	1.2	1.2	1.1	1.0
Non-interest expense/gross revenue	51.2	47.9	59.5	49.2
Net income/average equity	4.5	9.5	10.5	6.8
Asset quality				
Impaired loans ratio	0.8	0.9	1.2	1.9
Growth in gross loans	4.7	-0.6	8.0	-6.2
Loan-loss allowances/impaired loans	n.a.	49.1	44.8	41.9
Loan impairment charges/average gross loans	0.0	-0.1	-0.2	0.3
Capitalisation				
Fitch Core Capital ratio	13.2	13.5	12.5	13.5
Tangible Common Equity ratio	4.8	4.6	4.2	4.1
CET1 ratio	13.1	13.5	12.5	13.5
Basel leverage ratio	4.5	4.3	4.0	3.9
Net impaired loans/FCC	n.a.	7.5	12.3	20.2
Funding & liquidity				
Loans/customer deposits	960.1	846.4	691.0	942.1
LCR	n.a.	160.2	183.0	233.0
Customer deposits/funding	9.1	9.9	12.2	8.5

Source: Fitch Ratings

Banks
Wholesale Commercial Banks
Germany

Environmental, Social and Governance Considerations

Berlin Hyp's 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, either due to their nature or the way in which they are being managed by the bank. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

FitchRatings **Berlin Hyp AG**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Berlin Hyp AG has 5 ESG potential rating drivers

- Berlin Hyp AG 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.

			Overall ESG Scale
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)

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	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

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	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				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 left-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 the [number of] general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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

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 ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.