FitchRatings

Banks
Retail & Consumer Banks
Germany

Sparkassen-Finanzgruppe (Sparkassen)

Key Rating Drivers

Leading Franchise, Stable Business Profile: Sparkassen-Finanzgruppe (Sparkassen)'s (SFG) Issuer Default Ratings (IDRs) and Viability Rating (VR) reflect its very strong domestic retail and SME franchise and stable business model, granular and sound credit exposure, strong capitalisation and strong deposit-driven funding and liquidity. They also factor in SFG's healthy profitability, despite years of pressure from declining net interest income and intense domestic competition.

Strong Mutual Support: SFG is not a legal entity but a savings bank network, whose cohesion is supported by a mutual support scheme. Fitch Ratings assigns group IDRs to SFG and the savings banks. The IDRs are based on the group's VR and apply to each individual savings bank.

The support scheme, which is designed as an institutional protection scheme (IPS) and recognised by the regulator as a deposit guarantee scheme, has an impeccable record in protecting creditors by safeguarding the viability of SFG's members. The latter share a common strategy, brand and joint marketing activities. However, the ESG relevance score of '4' for group structure reflects SFG's weaker cohesion than those of other European mutual banking groups.

Prudent Risk Profile: SFG's asset quality benefits from the savings banks' prudent risk appetites, including conservative underwriting, prudent collateralisation and low borrower concentrations. Borrowers have also strongly benefited from the comprehensive state support that has contained unemployment and insolvencies since the start of the pandemic.

Robust Asset Quality: Given SFG's focus on Germany, we expect no material short-term direct asset quality impact from the Ukrainian conflict. We expect asset quality to weaken moderately in the next two years due to the economic slowdown, rising interest rates and inflation. However, we expect SFG's impaired loans ratio to remain below 2% in the medium term.

Resilient Revenue: In 2021, SFG's revenue continued to benefit from firm loan growth, and its operating profit from minimal loan impairment charges (LICs). In 2022, we expect a pre-impairment profitability similar to 2021. From 2023, rising interest rates are likely to gradually alleviate the margin pressure of the past few years. However, the temporary write-downs in the savings banks' securities portfolios, driven by rising interest rates and rising credit spreads, are likely to significantly lower SFG's 2022 profit.

Rating Strength Capitalisation: The savings banks' consistently good profits and high profit retention drive SFG's much stronger capitalisation than the German banking sector's average. Its preliminary common equity Tier 1 (CET1) capital ratio of 15.6% at end-2021 is understated, because the savings banks' use of the standardised approach to assess their risk-weighted assets (RWAs) considerably overstates their mortgage loan books' risk density. Hence, SFG's very strong leverage ratio of 9.2% better reflects the relative strength of its capitalisation.

Manageable Landesbank Risks: SFG's ratings factor in contingent risks from the savings banks' exposure to their central institutions, the Landesbanken. We view these risks as manageable despite the Landesbanken's low recurring earnings and, in some cases, untested restructurings.

Stable, Granular Deposits Dominate Funding: The savings banks' large and rising retail deposit base and stable market shares underpin SFG's strong funding and liquidity. They ensure low funding costs, shield from volatile market sentiment and underpin the 'F1+' Short-Term IDR.

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1+
Viability Rating	a+
Government Support Rating	ns

Sovereign Risk (Germany)

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 (November 2021)

Related Research

Fitch Affirms Sparkassen-Finanzgruppe at 'A+' Outlook Stable (June 2022)

Global Economic Outlook (June 2022)

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Ratings Sensitivities

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

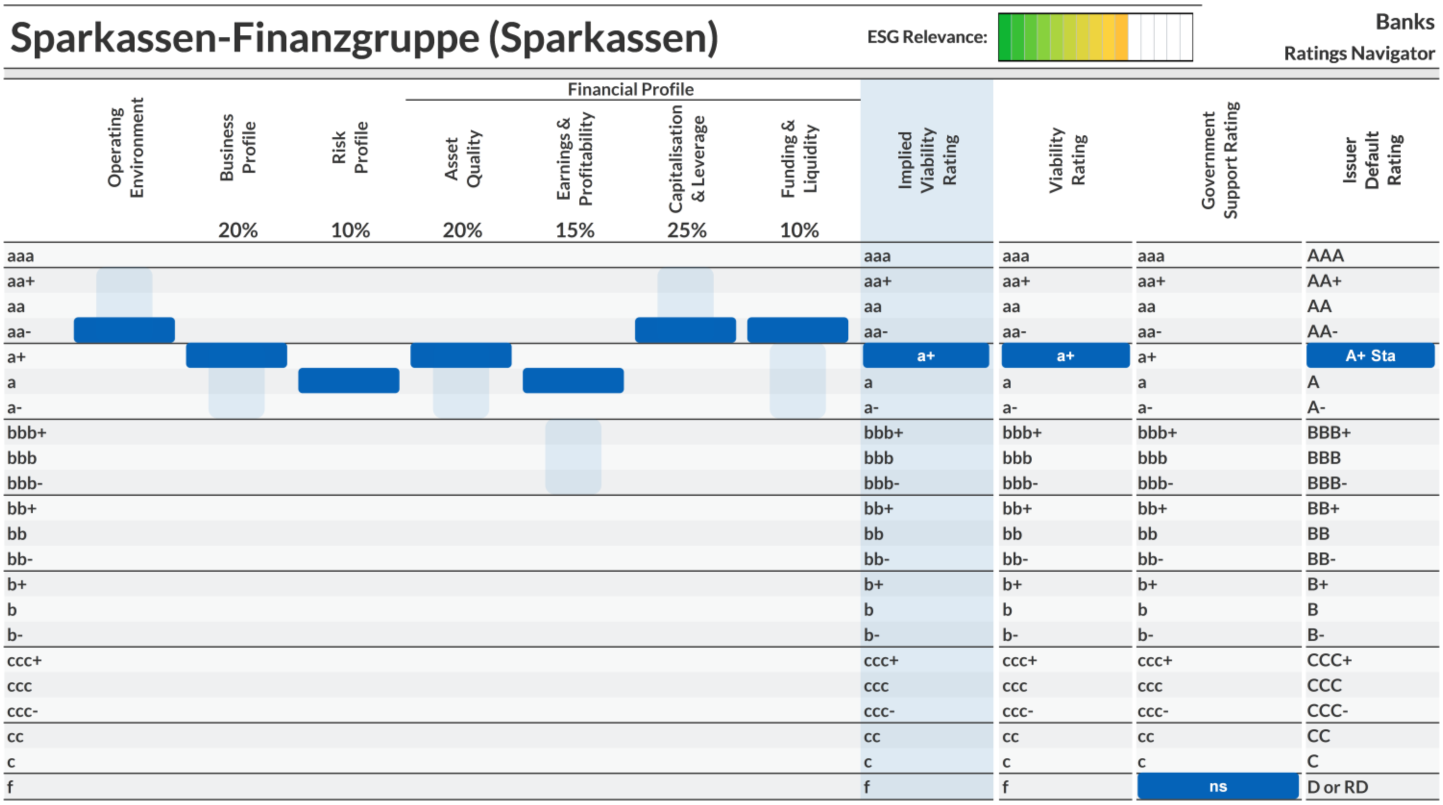
Unexpectedly High Credit Losses: SFG's high ratings reflect the group's well above-average crisis resilience. However, negative rating pressure could arise from spill-over effects of the Ukrainian conflict and resulting sanctions on Russia, if these severely and durably derail Germany's post-pandemic economic recovery. In this event, the rating pressure would reflect an increased likelihood of significantly lower revenue and higher credit losses than in our base case through (and potentially beyond) our two-year forecasting horizon.

We could downgrade SFG's ratings if its impaired loans ratio durably rises above 3%, its operating profit/RWA declines below 0.5% and if its CET1 ratio falls below 13% based on current RWA calculations.

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

Better Group Cohesion: Higher ratings would require stronger cohesion and significant improvements in SFG's decision-making processes, resulting in higher efficiency, better risk controls and materially improved disclosure. We expect material progress in the coming years (largely driven by regulatory pressure), but significant improvements will take time and are, thus, unlikely to support a positive rating action in the short term.

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 earnings & profitability score of 'a' has been assigned above the 'bbb' category implied score due to the following adjustment reason: risk-weight calculation (positive).

The capitalisation & leverage score of 'aa-' has been assigned in line with the 'aa' category implied score due to the following adjustment reason: leverage and risk-weight calculation (positive).

The funding & liquidity score of 'aa-' has been assigned above the 'a' category implied score due to the following adjustment reason: deposit structure (positive).

Company Summary and Key Qualitative Factors

Operating Environment

War in Ukraine to Dent Germany's Economic Recovery

Fitch expects the German GDP to grow by just 1.6% in 2022 (down from Fitch's March 2022 forecast of 2.5%) and not reach its pre-pandemic level before 1Q23. The downward revision reflects the recent lockdowns in China and the war in Ukraine checking Germany's recovery in 2022 through weaker trading conditions, more intense supply-chain disruption and higher inflation. The revised projection remains sensitive to further economic disruptions brought about by the war in Ukraine. Weaker manufacturing PMI and production expectations data since March suggest output will remain subdued, particularly as export orders are hit by weaker growth in China and persistent component shortages. Car manufacturers have already had to suspend their production, partly due to a lack of parts from Ukraine.

With Russian gas accounting for 19% of Germany's primary energy consumption, Fitch's GDP forecast is strongly exposed to the gas price surge and potential gas supply disruptions linked to the conflict. Fitch now expects headline inflation of 4% (more than twice the previous forecast, driven by higher oil, gas and food prices) to weaken household spending in 2022. The ability of the fiscal programmes announced by the German government, including large defence and energy spending, to cushion the economic shock and support investor confidence, remains uncertain.

Business Profile

Leading Retail Banking Group

SFG's mutual support scheme has an impeccable record of protecting all creditors by safeguarding the savings banks' viability. The savings banks are generally controlled by their respective municipalities. This ensures high client loyalty within their local communities, where the banks are socially engaged and have deep, performance-enhancing knowledge of their local economic environment.

SFG's stable and leading market positions rest on the savings banks' strong shared brand, strategy and marketing activities. Their business model focuses on lending to retail and small SME clients and does not rely on volatile businesses. Only a few larger savings banks engage in sizeable trading activities. SFG is also the largest provider of public development loans in Germany. During the pandemic, the savings banks have been instrumental in providing SMEs with quick access to government support channelled through KfW, the state-owned development bank.

Each savings bank is allowed to operate only within its local area, but SFG collectively has leading nationwide market shares of 35% in mortgage and SME lending and is the largest domestic deposit taker with a 30% market share at end-2020. The savings banks also closely cooperate with specialist members of the broader public-sector banking group (especially Landesbanken, insurers and asset managers). This underpins SFG's above-average market position, especially in rural areas, where competition is less intense.

SFG does not produce consolidated financial accounts, and its aggregated risk reporting is less advanced than peers. However, the national savings bank association's initiatives to make savings banks' adhere to common strategic projects including digitalisation, process automation, standardisation, data collection, analytics and risk management are bearing fruit, even though the complexity of the organisation often results in protracted implementation.

Risk Profile

Prudent Approach to Credit Risk

The savings banks focus on typically highly collateralised granular lending and have adequate local risk monitoring. Their conservative risk profile and stable profits through the cycle benefit from the low complexity of their business models and long-standing business relationships that result in extensive knowledge of their customers.

Similar to peers, the duration mismatch between the savings banks' assets and liabilities has steadily increased over the past decade as the banks have increased their share of sight deposits and the average maturity of fixed-rate housing loans to mitigate the low interest rates. As the savings banks leave this mismatch predominantly unhedged, their vulnerability to the current rapid increase in market interest rates is well higher than those of large universal banks. The large proportion of price-inelastic retail deposits should mitigate the negative impact of rising interest rates during the most critical phase: ie from the moment the ECB's main refinancing rate turns positive until a significant share of the mortgage back books has been positively repriced. However, the mitigating impact of this latency of the deposit base will only be effective if the pace of the market rates' increase is more moderate than over the past couple of months.

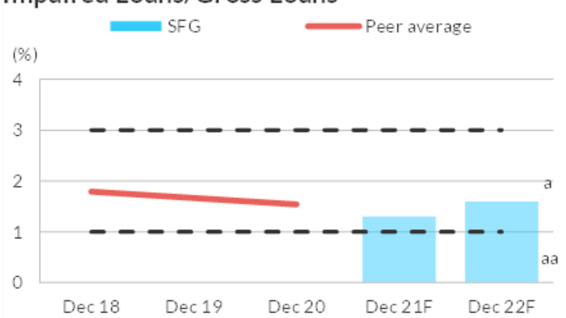
Financial Profile

Asset Quality

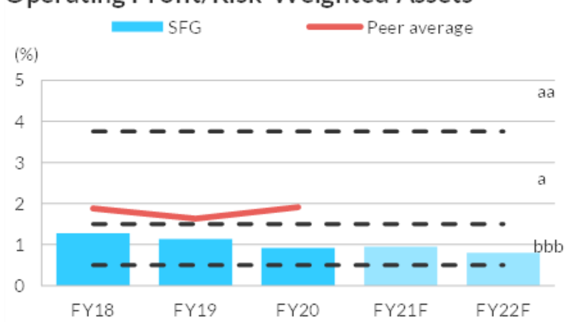
No Direct Exposure to Russia and Ukraine; Indirect Effects Likely to Be Manageable

SFG's direct exposure to Russia, Ukraine and Belarus is insignificant as it operates exclusively in Germany. The group focuses on domestic mass retail and small SMEs customers, which have virtually no ties to Russia and Ukraine and are less affected by the global supply chain disruptions than large multinational corporates.

We, therefore, believe that SFG's asset quality is largely insulated from the direct effects of the war. Indirect effects induced by the high inflation and the expected economic slowdown are likely to weaken loan quality over the next two years. However, we expect little pressure on mortgage loans, given their prudent collateralisation and borrowers' strong payment behaviour. Impaired loans are likely to rise moderately in 2022, but we expect the four-year-average impaired loans ratio (which we estimate at 1.2%-1.4% at end-2021) to remain below 2% in the medium term.



Source: Fitch Ratings, banks



Source: Fitch Ratings, banks

Earnings and Profitability

Solid 2021 Result Unlikely to Be Maintained in 2022

SFG reported solid results in 2021 despite further erosion of its net interest income due to the low interest-rate environment, which the strong loan growth could not offset. Its operating profit benefited from rising fee income, notably as fees charged on a rising share of deposits have prompted retail clients to reinvest excess deposits in marketable securities. Together with stable operating costs, this has stabilised SFG's reported cost/income ratio to an adequate 66%. SFG's return on equity (prior to the profit allocation to capital reserves) improved to 6.1% (2020: 5.5%) and benefited from a strong decline in LICs to an unsustainably low EUR0.1 billion (2020: EUR1.3 billion) as the domestic economy continued to recover from the pandemic.

Thanks to its leading franchise in lower-risk domestic activities, strong execution through several credit cycles and well above-average resilience during previous crises, SFG is well equipped to remain adequately profitable in 2022 despite the expected economic shock from the Ukrainian war. We expect its operating profit/RWAs, which we assess in light of its conservative RWA calculation, to remain close to 1%, supported by new business, although housing loan growth (so far SFG's main growth driver) is likely to decline rapidly from the high level of the past few years. We expect LICs to be moderately higher at 15bp of gross loans in 2022.

Capital and Leverage

Capitalisation to Remain Strong

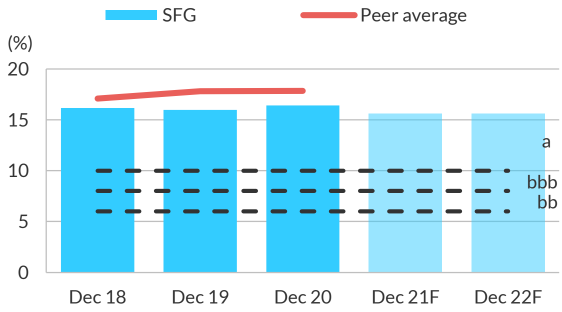
SFG's CET1 capital ratio declined to a still sound 15.6% at end-2021 (end-2020: 16.4%) as RWA inflation driven by 5.5% loan growth outpaced profit retention. SFG should remain clearly profitable and maintain a CET1 capital ratio above 15% in the medium term, as it strengthens its capital reserves, despite our expectation that rising interest rates and credit spreads will trigger large temporary mark-to-market write-downs in the savings banks' securities portfolios in 2022.

The saving banks' use of the standardised approach for credit-risk RWAs for all asset classes strongly limits the vulnerability of SFG's capital ratios to negative rating migration and regulatory RWA inflation. The standardised approach also strongly understates the group's CET1 and total capital ratios (by up to 35%, in our view) compared with European mutual banking groups that operate in similar environments with similar risk profiles, but make extensive use of the internal rating-based approach. SFG's stable leverage ratio of 9.2% at end-2021 is much stronger than those of domestic and foreign peers.

SFG is not regulated as a group. Therefore, it is not subject to regulatory capital or resolution planning requirements at group level. Each savings bank is subject to individual SREP requirements, which mainly address their vulnerability to unhedged structural interest-rate risks in their banking books.

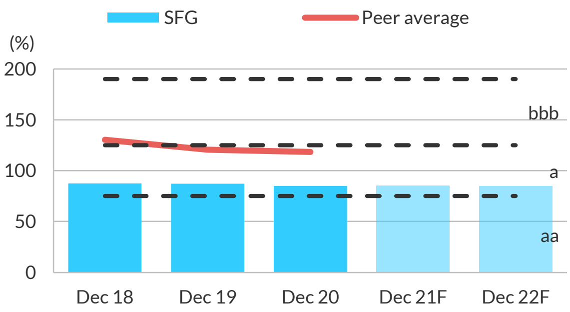
The savings banks' status as public-law institutions constrains their ability to raise capital from the controlling municipalities. Instead, capital weaknesses at individual savings banks are generally proactively addressed by merging them into stronger neighbouring savings banks.

CET1 Ratio



Source: Fitch Ratings, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, banks

Funding and Liquidity

Sound and Stable Funding and Liquidity Profile

The savings banks' large and steadily rising stock of retail deposits as well as their high and stable market shares underpin SFG's strong funding and liquidity profile. The group's size and resilience in previous crises, owing to its strong brand recognition and entrenched customer relationships, make its deposit base less sensitive to market sentiment than those of smaller competitors. This has also been the case since the beginning of the pandemic, and we expect the group's stability to remain intact through the current crisis.

SFG's client deposits rose by 4.5% yoy to EUR1.12 billion at end-2021. This was a stable 31% of the German deposit market. Savings banks typically have highly liquid balance sheets, as shown by SFG's high aggregated liquidity coverage ratio (LCR) of 174% at end-2021. This reflects the group's comfortable ratio of highly liquid assets to deposits.

About Fitch Forecasts

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.

The dashed lines represent indicative 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.

The peer averages include Sparkassen-Finanzgruppe Hessen-Thueringen (VR: a+), Genossenschaftliche Finanz-Gruppe (aa-), Desjardins Group (aa-), Credit Agricole (a+), Groupe BPCE (a+), Credit Mutuel Alliance Federale (a+) and Svenska Handelsbanken AB (aa).

Financials

Summary Financials and Key Ratios

	31 Dec 20 (EURm)	31 Dec 19 (EURm)	31 Dec 18 (EURm)
Summary income statement			
Net interest and dividend income	19,944	20,397	21,152
Net fees and commissions	8,402	8,168	7,694
Total operating income	28,355	28,507	28,275
Operating costs	19,615	20,136	19,290
Pre-impairment operating profit	8,740	8,371	8,985
Loan and other impairment charges	1,822	0	0
Operating profit	6,918	8,371	8,985
Other non-operating items (net)	-2,909	-4,091	-4,412
Tax	2,528	2,449	2,775
Net income	1,481	1,831	1,798
Summary balance sheet			
Gross loans	905,586	861,208	823,009
Interbank	58,783	57,673	63,822
Other securities and earning assets	295,111	287,691	289,252
Total earning assets	1,259,480	1,206,572	1,176,083
Cash and due from banks	135,108	77,156	50,668
Other assets	16,838	16,239	15,851
Total assets	**1,411,426**	**1,299,967**	**1,242,602**
Customer deposits	1,067,029	987,421	941,996
Interbank and other short-term funding	161,654	135,421	127,565
Other long-term funding	16,569	17,418	17,702
Total funding	1,245,252	1,140,260	1,087,263
Other liabilities	40,669	39,601	40,490
Total equity	125,505	120,106	114,849
Total liabilities and equity	**1,411,426**	**1,299,967**	**1,242,602**
Ratios (annualised as appropriate)			
Profitability			
Operating profit/risk-weighted assets	0.9	1.1	1.3
Net interest income/average earning assets	1.6	1.7	1.8
Non-interest expense/gross revenue	69.2	70.6	68.2
Net income/average equity	1.2	1.6	1.6
Asset quality			
Growth in gross loans	5.2	4.6	7.1
Loan impairment charges/average gross loans	0.2	0.1	n.a.
Capitalisation			
Common equity Tier 1 ratio	16.4	16.0	16.2
Tangible common equity/tangible assets	8.9	9.2	9.2
Funding and liquidity			
Loans/customer deposits	84.9	87.2	87.4
Customer deposits/funding	85.7	86.6	86.6

Source: Fitch Ratings, Fitch Solutions, SFG

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	Neutral
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Positive
Ownership	Neutral

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

The GSR of 'ns' reflects Fitch's view that senior creditors of the bank cannot rely on full extraordinary support from the sovereign if the bank becomes non-viable, due to the EU's Bank Recovery and Resolution Directive.

Subsidiaries and Affiliates

SUBSIDIARIES AND AFFILIATES: KEY RATING DRIVERS

Saving Banks' Long-Term IDRs

The Long- and Short-Term IDRs of SFG's 315 savings bank members (out of a total of 367 German savings banks at 1 May 2022) are aligned with SFG's IDRs.

Deposit Ratings

The savings banks' deposit ratings are aligned with SFG's IDRs due to the banks' lack of material resolution debt buffers that would provide their depositors with additional protection if SFG fails to ensure its members' viability. We do not assign a deposit rating to SFG as it is not a legal entity.

We define SFG as consisting of the savings banks only. Each savings bank is predominantly deposit-funded and regulated individually as a less significant institution. The German regulators' preferred resolution strategy for the savings banks consists of standard insolvency procedures in the highly unlikely event SFG's IPS would fail to protect their viability. Hence, the savings banks have no incentive to build up resolution buffers.

We exclude from our definition of SFG the Landesbanken, most of which have large resolution debt buffers in their capacities as domestic systemically important banks following single-point-of-entry approaches and bail-ins as preferred resolution strategies. Therefore, we do not expect the savings banks' depositors to benefit from the Landesbanken's debt buffers if SFG fails to ensure the savings banks' viability.

Short-Term Ratings

The savings banks' very large and rising retail deposit base and leading collective market share in the German retail deposit market underpin SFG's strong funding and liquidity profile, which drives the group's 'aa-' funding & liquidity score. Therefore, the 'F1+' Short-Term IDRs of SFG and the savings banks are the higher of two options mapping to their 'A+' Long-Term IDRs.

All statements regarding SFG's 2021 performance and balance-sheet items refer to preliminary data released by the German Association of Savings Banks for 2021.

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

The savings banks' Long-Term IDRs and deposit ratings would be downgraded if SFG's Long-Term IDR is downgraded.

The Short-Term IDRs and deposit ratings of the savings banks would be downgraded if SFG's funding & liquidity score drops below 'aa-'.

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

The savings banks' Long-Term IDRs and deposit ratings would be upgraded if SFG's IDRs are upgraded. We view a rating uplift of the deposit ratings above SFG's Long-Term IDR as highly unlikely in light of the savings banks' modest senior unsecured issuance. As a result, we do not expect the group to build and maintain a large buffer of subordinated and senior non-preferred debt above 10% of the group's RWA, which would be required for an uplift of the long-term deposit ratings to one notch above their Long-Term IDRs.

The Short-Term IDRs and deposit ratings of SFG and the savings banks are at the highest level on Fitch's rating scale and, therefore, cannot be upgraded.

Environmental, Social and Governance Considerations

FitchRatings **Sparkassen-Finanzgruppe (Sparkassen)**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Sparkassen-Finanzgruppe (Sparkassen) has 1 ESG rating driver and 4 ESG potential rating drivers

- Sparkassen-Finanzgruppe (Sparkassen) has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership which, in combination with other factors, impacts the rating.
- Sparkassen-Finanzgruppe (Sparkassen) 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.
- Sparkassen-Finanzgruppe (Sparkassen) has exposure to operational implementation of strategy but this has very low impact on the rating.
- Sparkassen-Finanzgruppe (Sparkassen) has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions but this has very low impact on the rating.
- Sparkassen-Finanzgruppe (Sparkassen) has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

			Overall ESG Scale
key driver	0	issues	5
driver	1	issues	4
potential driver	4	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	4	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 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.

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.

SFG's highest level of ESG credit relevance is a score of '4' for group structure, as opposed to a typical score of '3' for comparable banks. This reflects our view that SFG is one of the least cohesive groups to which Fitch assigns group ratings. SFG does not produce consolidated financial accounts, and its aggregated risk reporting is less advanced than other European mutual support banking groups rated by Fitch. The score also reflects the often lengthy and complex decision-making process of the group and limited enforcement rights, because SFG is not a consolidated legal entity.

This ESG score of '4' has a moderate negative impact on the credit profile and is relevant to the rating in combination with other factors, but is not a key rating driver in itself.

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

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.