MOODY'S
INVESTORS SERVICE

CREDIT OPINION
22 November 2021

Update

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IKB Deutsche Industriebank AG

Update to credit analysis

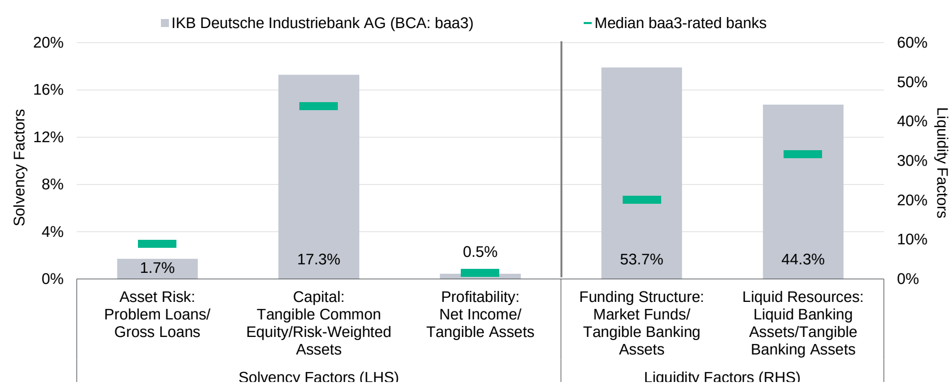
Summary

We assign Baa1(stable)/P-2 issuer and deposit ratings to IKB Deutsche Industriebank AG (IKB), alongside a baa3 Baseline Credit Assessment (BCA) and Adjusted BCA, A3/P-2 Counterparty Risk Ratings (CRRs) and A3(cr)/P-2(cr) Counterparty Risk (CR) Assessment.

IKB's Baa1 deposit and issuer ratings reflect the bank's baa3 Baseline Credit Assessment (BCA) and the application of our Advanced Loss Given Failure (LGF) analysis to its liabilities, which results in a very low loss given failure and two notches of rating uplift. IKB's ratings do not benefit from government support uplift because of its small size in the context of the German banking sector.

IKB baa3 BCA reflects the bank's market position as a specialist lender in the German medium-sized and large company (or larger Mittelstand) market, its good asset quality and its recently improved, sound capitalization. It further reflects the fact that the bank's strong focus on those customers results in a quasi-monoline business model because of its strong reliance on corporate lending for its revenue. IKB's profitability has recovered from a period of low and volatile returns during which the bank refocused its business model and accomplished significant cost cutting while simultaneously extensively de-risking its balance sheet. Despite a high reported market funding dependence, the underlying funding risks are much lower because of a strong reliance on development bank funding.

Exhibit 1
Rating Scorecard - Key financial ratios
IKB Deutsche Industriebank AG



Sources: Company reports and Moody's Investors Service

RATINGS

IKB Deutsche Industriebank AG

Domicile	Duesseldorf-Ger, Germany
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Fgn Curr
Outlook	Not Assigned
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Credit strengths

» Sound and improved capitalisation and profitability

» Limited reliance on confidence-sensitive market funding because of the use of development bank programmes as a key funding source after deposits

» Good asset risk profile following balance sheet de-risking

Credit challenges

» Monoline business model with a focus on larger Mittelstand lending in Germany

» Freely available liquidity buffers are adequate only because of high asset encumbrance

» Increasing importance of sustainable finance, which could attract new competition into IKB's core competence

Outlook

The stable rating outlook reflects our expectation that IKB's core fundamentals will remain resilient despite ongoing coronavirus pandemic-related difficulties and our forward-looking analysis of the bank's liability structure.

Factors that could lead to an upgrade

» An upgrade of IKB's ratings could be prompted by a higher BCA or by increasing rating uplift from our Advanced LGF analysis for deposit and issuer ratings as a result of a higher volumes of instruments designed to absorb losses in issuance.

» An upgrade of IKB's baa3 BCA could be prompted by a significant increase in capitalization, beyond the bank's current targets and significantly increased profitability. Alternatively, IKB's BCA could be upgraded if the bank substantially diversifies its business and customer lines without taking undue strategic and operational risks as a result of such a shift.

Factors that could lead to a downgrade

» A downgrade of IKB's issuer and deposit ratings could be prompted by a BCA downgrade or a weaker result from our Advanced LGF analysis as a result of a decline beyond our expectations in instruments designed to absorb losses in case of failure.

» IKB's BCA could be downgraded in case of a combined deterioration in solvency metrics, with risk-weighted capitalisation declining significantly from improved levels, the bank's underlying profitability plummeting on a sustained basis and a marked increase in asset risk.

Key indicators

Exhibit 2

IKB Deutsche Industriebank AG (Consolidated Financials) [1]

	06-21[2]	12-20[2]	03-20[2]	03-19[2]	03-18[2]	CAGR/Avg.[3]
Total Assets (EUR Billion)	16.1	16.9	16.6	16.1	17.2	(1.9)[4]
Total Assets (USD Billion)	19.1	20.7	18.2	18.1	21.2	(2.9)[4]
Tangible Common Equity (EUR Billion)	1.5	1.4	1.4	1.4	1.4	2.6[4]
Tangible Common Equity (USD Billion)	1.8	1.8	1.5	1.5	1.7	1.5[4]
Problem Loans / Gross Loans (%)	1.7	1.4	1.4	1.5	0.9	1.4[5]
Tangible Common Equity / Risk Weighted Assets (%)	17.3	16.2	12.0	12.1	11.6	13.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.6	7.6	8.7	9.5	5.8	8.3[5]
Net Interest Margin (%)	1.1	0.7	1.2	1.2	1.2	1.1[5]
PPI / Average RWA (%)	1.1	1.1	1.1	0.8	0.6	0.9[6]
Net Income / Tangible Assets (%)	0.6	0.5	0.5	0.3	-0.2	0.3[5]
Cost / Income Ratio (%)	82.6	81.1	91.2	90.4	88.0	86.6[5]
Market Funds / Tangible Banking Assets (%)	57.1	53.7	51.7	48.3	47.3	51.6[5]
Liquid Banking Assets / Tangible Banking Assets (%)	38.8	44.3	37.5	31.4	36.7	37.8[5]
Gross Loans / Due to Customers (%)	211.3	167.3	176.4	174.2	153.4	176.5[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; LOCAL GAAP. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

Headquartered in Düsseldorf, Germany, IKB Deutsche Industriebank AG (IKB) is a commercial bank that specialises in lending to medium-sized and large corporates and is active in the German market. It provides a host of financial services to German corporate clients, ranging from business loans to development bank loans (its niche), notably from Kreditanstalt für Wiederaufbau (KfW, Aaa stable[1]).

Started as a real estate financing entity in 1924, the bank developed into its current role as a corporate lender from the 1970s. IKB was weakened by the financial crisis in 2008-09 and was subsequently bailed out by a consortium consisting of KfW and several other banks. IKB is fully owned by the private equity firm Lone Star Funds. Over this period, the bank's balance sheet has been extensively de-risked and its business has refocused on corporate lending.

The bank operates several segments, with a focus on corporate customers, and advisory services plus select primarily deposit-focused services for retail customers. It currently operates from six branches in Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart.

Weighted Macro Profile of Strong+

IKB's activities are mostly based in the German market, and its remaining exposures are within Europe and North America. The assigned Macro Profile is Strong+, in line with the Strong+ Macro Profile of Germany.

Recent developments

In February, IKB increased the size of its management board to four members from two[2] thereby reducing potential governance risks, given the previously very small executive board. Further, the bank changed its reporting cycle to the calendar year, with the 2020 results based only on the period from March to December 2020. Previously, the bank's fiscal year ended in the first quarter of every year.

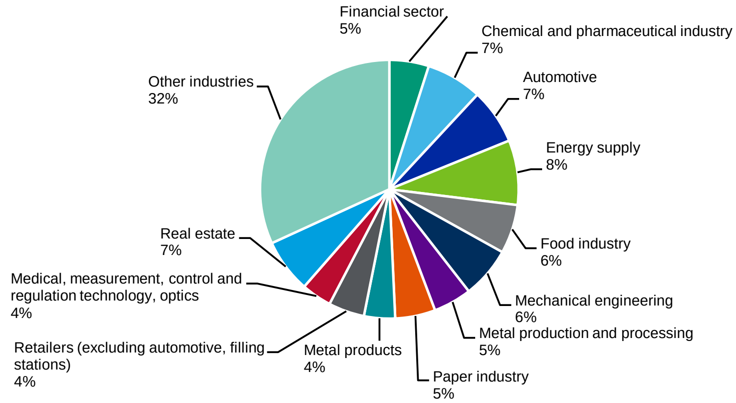
Detailed credit considerations

Asset risk is solid, although sector concentration in Mittelstand implies increased exposure to the economic cycle

We assign a baa2 Asset Risk score to IKB, four notches below the a1 initial score. The assigned score reflects the bank's concentration in Mittestand lending, particularly in Germany; market risks related to its securities portfolio, with significant derivatives exposures that add to earnings volatility; and our expectation of a rise in nonperforming loans (NPLs), although from a low level.

IKB's asset risk is driven by its focus on corporate Mittelstand lending in Germany, with the assigned Asset Risk score reflecting our view on the underlying credit of the sector, and the diversification of IKB's lending book within the Mittelstand sector. We expect the Mittelstand sector to be severely weakened by the pandemic-related economic downswing because smaller companies are more exposed to the economic cycle. Therefore, NPLs within IKB's existing lending book should rise from currently low levels in 2021.

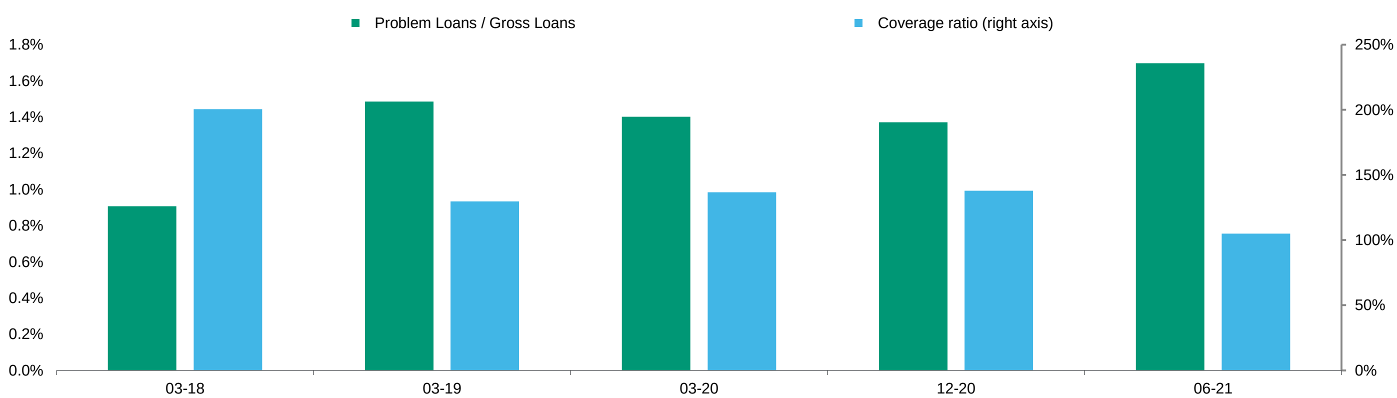
Exhibit 3
IKB's loan book by sector
As of half-year 2021 (June 2021)



Source: Company's half year report (June 2021) p.21

As of 30 June 2021, NPLs were a still-solid 1.7% of gross loans (according to our definition), slightly up from 1.4% as of December 2020. IKB's asset quality had improved over recent years, as reflected in a declining NPL ratio compared with its gross loans. The improvement was driven by the de-risking of IKB's balance sheet, with a shift from international to domestic lending and a renewed focus on Mittelstand lending.

Exhibit 4
IKB has reduced its NPL stock and kept it stable
NPL stock developments and coverage, 2017-H1 2021



Sources: Company reports and Moody's Investors Service

The assigned score also reflects the bank's relatively high market risk, particularly related to its large derivatives portfolio, exposing the bank to highly volatile fair value developments, especially in a more adverse market environment.

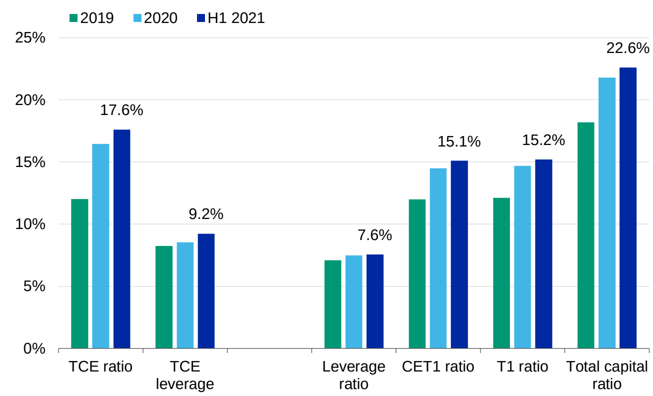
Strong capitalisation structure with improved capital ratios

We assign an a3 Capital score to IKB, four notches below the aa2 initial score. The assigned score reflects the bank's overall solid capital levels after the cleanup of its capital structure during the business year ending in March 2020 and our expectation that the capital ratios will stabilise at around 13%-14%. While regulatory approvals for the use of internal ratings-based models has lead to capital relief, we expect future dividend payments to offset some of the recent improvements. The assigned score takes into account the bank's strong leverage ratio with a tangible common equity (TCE) leverage ratio of 9.2% and a regulatory leverage ratio of at 7.6% as of 30 June 2021.

IKB's capitalisation levels have improved in recent years, with TCE increasing to 17.6% as of June 2021 from levels of around 12% in March 2020 and 2019, with the imposed restrictions on dividend payouts a key driver. The Common Equity Tier 1 (CET1) capital ratio improved to 15.1% as of June 2021, while the total capital ratio improved to 22.6%, providing a substantial buffer compared with regulatory requirements. In contrast to TCE, the CET1 ratio includes deductions for the expected payouts of accumulated profit, explaining the 250-basis-point (bp) gap between the two ratios.

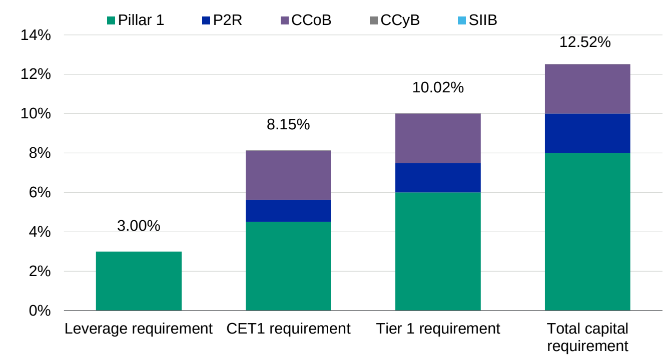
The positive trend in capitalisation was established despite measures to streamline the bank's capital structure, providing the bank with a less-expensive capital base in the future. These measures included the cancellation or buyback of hybrid capital, such as the silent participations as of March 2020 and the capital reduction at IKB to offset balance sheet losses in February 2020. With these steps, the bank complemented the efforts of previous years, such as the purchase of debt warrants in the fiscal year ending in March 2019, as well as the issuance of subordinated debt in January 2018.

Exhibit 5
IKB's adequate capitalisation improved in H1 2021



TCE = Tangible common equity (our calculation). CET1 = Common Equity Tier 1 capital. T1 = Tier 1 capital.
Sources: Company reports and Moody's Investors Service

Exhibit 6
IKB's H1 2021 capital ratios exceed regulatory minima



CCoB = Capital conservation buffer; CCyB = Countercyclical capital buffer; SIIB = Systemically important institutions buffer.
Source: Company reports

The implementation of internal ratings-based models has led to a reduction in the current high density of risk-weighted assets (RWA). As of 30 June 2021, the bank's RWA compared with total assets was 53%, still high compared with those of its peers, but down from an extraordinary 69% as of March 2020. The implementation should also provide some buffer against the expected recognition of and decline in outstanding Tier 2 instruments and potential strain from downward rating shifts in its lending book as a result of the economic crisis. Upcoming regulatory changes to capital regulation, such as the implementation of the output floor, are not likely to strain IKB's capital ratios.

Tight cost controls helped improve profitability

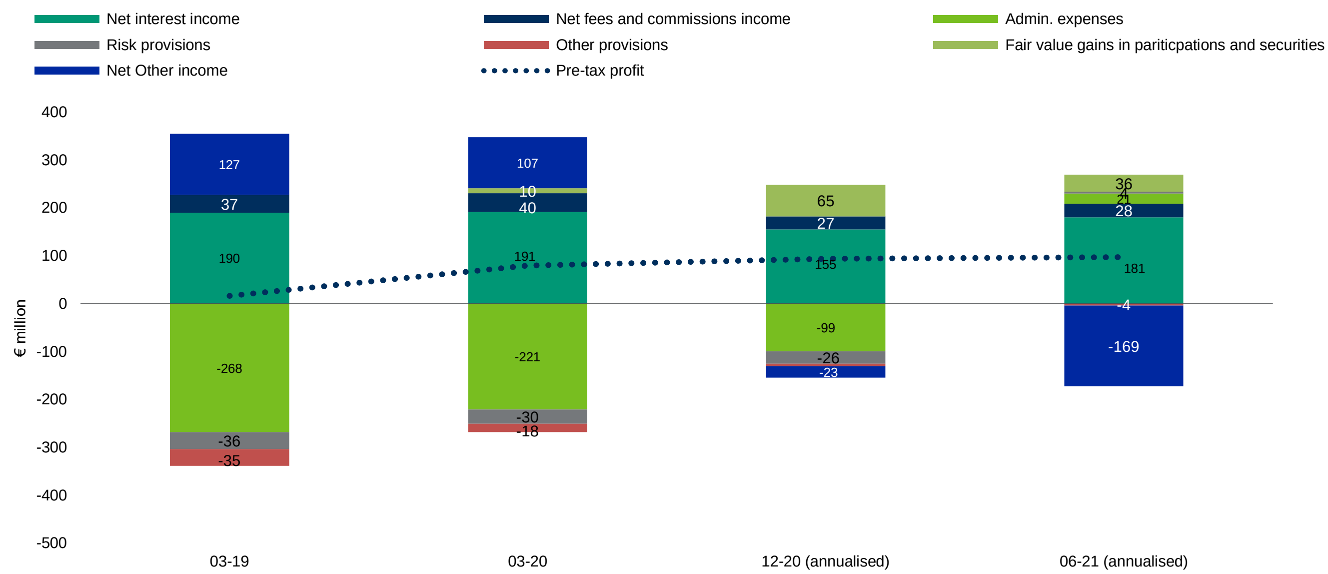
We assign a ba1 Profitability score to IKB, in line with the initial score, reflecting the bank's net income as of its tangible banking assets of 0.5% on average for the last three fiscal years.

We expect the past volatility in profitability, which was the result of its de-risking and downsizing efforts, to have less of an impact, given the progress achieved. The improved cost structure, with annual personnel expenses down by almost 50% since 2017 and a less-expensive capital structure as of March 2020, provides the bank with the potential to earn higher returns in the next three years. Although the persistently low interest rate environment is another challenge, higher margins on the development bank-related lending will provide a buffer for the time being and the more benign risk environment will support profitability in 2021 and 2022.

Exhibit 7

IKB's profitability structure at a glance

Improving underlying profitability, although derivatives position increases volatility



IKB switched its reporting period to the calendar year in 2020, with the 2020 result based on April-December financials.
Sources: Company reports and Moody's Investors Service

For the half-year period that ended June 2021, the bank reported a consolidated net profit of €47 million, slightly up from €42 million in the over the comparable six months of the previous fiscal year. Net interest income increased by 15% to €90 million from €78 million at the end of half-year period in 2020, while fee and commission income of €14 million remained broadly stable.

A consistent decline in administrative expenses, together with lower provisions were able to offset flat revenue. Personnel expenditure was €41 million, stable compared with the previous year (€40 million). Total administrative expenses were €73 million, up 7.4% from €68 million over the same period in 2020. There was a net release of loan loss provisions of €2 million compared with additions of €13 million in the previous year, while net other income also decreased, driven by derivative positions and pension obligations resulting in expenses.

The derivative-related income and expenditure are also key drivers for the bank's high cost-to-income ratio of 82.6% for June 2021, overstating the bank's underlying cost base, which are more in line with the bank's reported cost-to-income ratio of 59.9%.

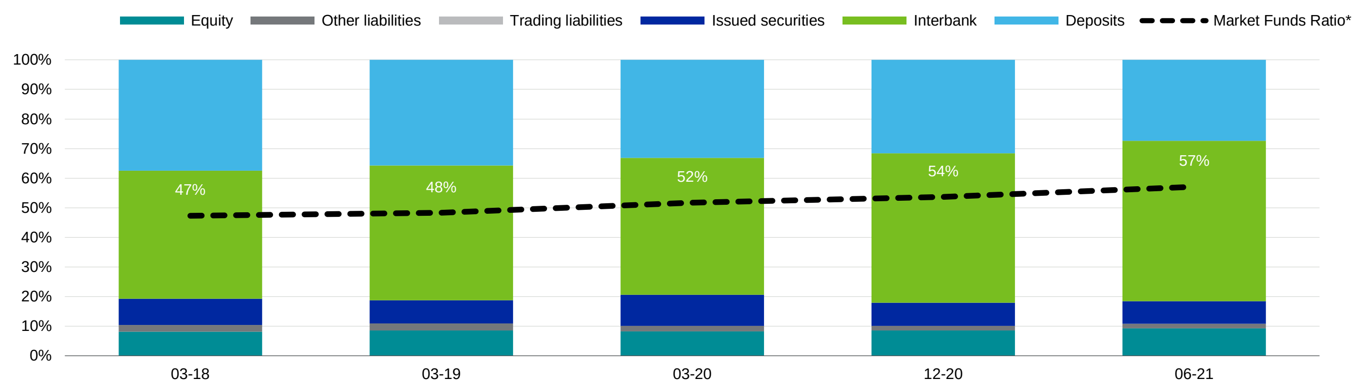
Restructuring expenses of €14 million negatively contributed to the bank's earnings over this period. However, such extraordinary effects remain substantially below levels in the past because the bank has finalised the adjustments to its business model.

Limited dependence on market funding and strong recourse to secured funding

We assign IKB an a3 score for Funding Structure, nine notches above the b3 initial score, reflecting the bank's strong access to and usage of development bank funding, a source that we do not deem confidence sensitive, and our expectation of a decrease in reliance on market funding in the future.

IKB's liability structure consisted of €8.7 billion due to financial institutions, including €5.4 billion in funding provided by development banks. Deposits contributed another €4.4 billion, with a significant share of corporate deposits (including promissory notes), which we deem more confidence sensitive than retail deposits. However, the term structure of deposits and the KfW funding remains a balancing factor. Deposits and development bank funding is accomplished by €0.5 billion in senior unsecured liabilities and €0.8 billion in subordinated liabilities.

Exhibit 8
IKB's funding structure relies heavily on development bank funds



*Market funds ratio = Market funds/total banking assets.
Source: Company reports and Moody's Investors Service

The bank also has recourse to €3.3 billion in secured European Central Bank (ECB) funding as another important funding source. While we do not deem this confidence sensitive, the bank's asset encumbrance is relatively high as a consequence.

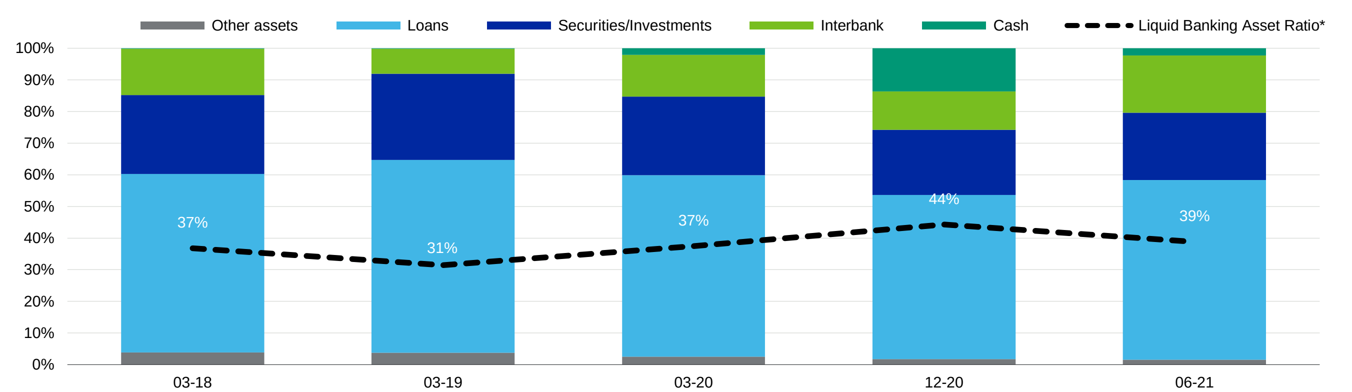
Liquidity is adequate with significant liquid resources encumbered, mirroring IKB's funding structure

We assign IKB a baa3 score for Liquidity, six notches below the aa3 initial score, reflecting the bank's sizeable asset encumbrance with adequate freely available liquidity.

While the bank's liquidity resources, as reflected in a liquidity ratio of 44% of tangible assets in June 2021, are high, the freely available liquidity is substantially lower, given high asset encumbrance because of its significant portion of secured funding via the ECB, with a significant portion of repo-eligible liquid assets pledged to the ECB.

Dues from financial institutions were €2.9 billion as of June 2021, while the largely central bank-eligible securities portfolio contributed €3.0 billion. Given the bank's limited market funding reliance, its liquidity is adequate, reflected in IKB's liquidity coverage ratio of 205% by the end of June 2021. The Moody's-adjusted loan-to-deposit ratio of 208% is overstating the potential refinancing risks because a significant portion of IKB's loan portfolio is funded via matched development bank loans, reflected in the reported loan-to-deposit ratio of 89% as of 30 June 2021.

Exhibit 9
IKB's liquid resources are pulled down by encumbrance



*Liquid banking asset ratio = Liquid banking assets/total banking assets.
Sources: Company reports and Moody's Investors Service

Monoliner adjustment

The bank's strong focus on (larger) Mittelstand customers results in a limited business diversification and a quasi-monoline business model because of its strong reliance on corporate lending for its revenue and profit. While IKB's niche bank position provides differentiation from competition, for example, it has a strong market presence in dedicated development banks' loan programmes, it exposes the bank more strongly to the economic cycle than banks with a better balanced customer profile.

We consider Mittelstand lending particularly exposed to the effects of the pandemic-related downturn. IKB's high reliability on corporate-related earning streams exposes it to shocks that are likely to hurt its income statement, and potentially its capital base, in an adverse scenario.

Business diversification is an important gauge of a bank's sensitivity to stress in a single business line. It is related to earnings stability in the sense that earnings diversification across distinct and relatively uncorrelated lines of business increases the reliability of a bank's earnings stream and its potential to absorb shocks affecting a business line.

To reflect the risks stemming from IKB's Mittelstand-focused business model, we apply a one-notch negative qualitative adjustment for lack of business diversification, which leads to a baa3 BCA from the bank's baa2 Financial Profile.

ESG considerations

In line with our general view of the banking sector, IKB has low exposure to environmental risks[3] (see our environmental risks heat map for further information).

For social risks[4], we also place IKB in line with our general view of the banking sector, which indicates moderate exposure (see our social risks heat map).

Corporate governance[5] is highly relevant for IKB, as it is to all banks. Corporate governance weaknesses can lead to a deterioration in a company's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven. Corporate governance remains a key credit consideration and requires ongoing monitoring.

Support and structural considerations

Affiliate support is low

There is a low probability that IKB's owners, Lone Star Funds, would support the bank in case of need, which does not result in any uplift for IKB's ratings. Support from its owners is reflected in their degree of involvement in IKB's strategy, management and operations, but we do not expect further capital injections, in case of need.

Government support considerations

Since the introduction of the Bank Recovery and Resolution Directive (BRRD), we have selectively assigned moderate expectations of government support in the event of need. Because of its small size relative to the German banking system and its limited degree of interconnectedness, we continue to assign a low government support probability assumption to IKB, which does not result in any rating uplift.

Loss Given Failure (LGF) analysis

IKB is subject to the BRRD, which we consider an operational resolution regime. Therefore, we apply our Advanced LGF analysis, where we consider the risks faced by the different debt and deposit classes across the liability structure should the bank enter resolution. In line with our standard assumptions, we assume a residual tangible common equity of 3%, as well as asset losses of 8% of tangible banking assets in a failure scenario. We also assume a 25% runoff of junior wholesale deposits and a 5% runoff of preferred deposits. Moreover, we assign a 25% probability to junior deposits being preferred to senior unsecured debt. We apply a standard assumption for European banks that 26% of deposits are junior.

For IKB's deposits and issuer ratings, our LGF analysis — based on forward-looking expectations with maturing junior senior and subordinated liabilities not being replaced — indicates a very low loss given failure, leading to two notches of rating uplift from its baa3 Adjusted BCA.

Counterparty Risk Ratings (CRRs)

IKB's CRRs are A3/P-2

The CRRs are three notches above IKB's baa3 Adjusted BCA, based on the very low loss given failure from the moderate volume of instruments that are subordinated to CRR liabilities. IKB's CRRs do not benefit from government support, in line with our support assumptions on deposits.

Counterparty Risk (CR) Assessment

IKB's CR Assessment is A3(cr)/P-2(cr)

IKB' CR Assessment is three notches above the baa3 Adjusted BCA, based on the buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments, primarily senior unsecured debt and junior deposits. Because the CR Assessment captures the probability of default on certain senior operational obligations, rather than expected loss, we focus purely on subordination and take no account of the volume of the instrument class.

Methodology and scorecard

Methodology

The principal methodology we used in rating IKB was the Banks Methodology, published in July 2021.

About Moody's Bank Scorecard

Our Bank Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may significantly differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 10

IKB Deutsche Industriebank AG

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		1.7%	a1	↔	baa2	Sector concentration	Market risk
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)		17.3%	aa2	↔	a3	Risk-weighted capitalisation	Expected trend
Profitability							
Net Income / Tangible Assets		0.5%	ba1	↔	ba1	Return on assets	Expected trend
Combined Solvency Score			a2		baa2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		53.7%	b3	↔	a3	Extent of market funding reliance	Expected trend
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		44.3%	aa3	↔	baa3	Asset encumbrance	Stock of liquid assets
Combined Liquidity Score			ba1		baa1		
Financial Profile					baa2		
Qualitative Adjustments					Adjustment		
Business Diversification					-1		
Opacity and Complexity					0		
Corporate Behavior					0		
Total Qualitative Adjustments					-1		
Sovereign or Affiliate constraint					Aaa		
BCA Scorecard-indicated Outcome - Range					baa2 - ba1		
Assigned BCA					baa3		
Affiliate Support notching					0		
Adjusted BCA					baa3		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	10,007	62.2%	10,453	65.0%
Deposits	4,373	27.2%	3,927	24.4%
Preferred deposits	3,236	20.1%	3,074	19.1%
Junior deposits	1,137	7.1%	853	5.3%
Junior senior unsecured bank debt	463	2.9%	463	2.9%
Dated subordinated bank debt	682	4.2%	682	4.2%
Preference shares (bank)	75	0.5%	75	0.5%
Equity	482	3.0%	482	3.0%
Total Tangible Banking Assets	16,082	100.0%	16,082	100.0%

Debt Class	**De Jure waterfall**		**De Facto waterfall**		**Notching**		**LGF Notching Guidance vs. Adjusted BCA**	**Assigned LGF notching**	**Additional Notching**	**Preliminary Rating Assessment**
	Instrument volume + subordination	**Sub-ordination**	**Instrument volume + subordination**	**Sub-ordination**	**De Jure**	**De Facto**				
Counterparty Risk Rating	15.9%	15.9%	15.9%	15.9%	3	3	3	3	0	a3
Counterparty Risk Assessment	15.9%	15.9%	15.9%	15.9%	3	3	3	3	0	a3 (cr)
Deposits	15.9%	10.6%	15.9%	10.6%	3	3	3	2	0	baa1
Senior unsecured bank debt	15.9%	10.6%	10.6%	10.6%	3	2	3	2	0	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a3	0	A3	A3
Counterparty Risk Assessment	3	0	a3 (cr)	0	A3(cr)	
Deposits	2	0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	2	0	baa1	0	Baa1	Baa1

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Investors Service

Ratings

Exhibit 11

Category	Moody's Rating
IKB DEUTSCHE INDUSTRIEBANK AG	
Outlook	Stable
Counterparty Risk Rating	A3/P-2
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa3
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Issuer Rating	Baa1
ST Issuer Rating	P-2

Source: Moody's Investors Service

Endnotes

1 The rating shown here is KfW's deposit rating/debt rating and outlook.

2 See Enlarged executive board will contain potential governance risk, a credit positive.

3 Environmental risks can be defined as environmental hazards encompassing the impacts of air pollution, soil/water pollution, water shortages, and natural and human-made hazards (physical risks). Additionally, regulatory or policy risks, like the impact of carbon regulation or other regulatory restrictions, including the related transition risks like policy, legal, technology and market shifts, which could impair the evaluation of assets, are an important factor. Certain banks could face a higher risk from concentrated lending to individual sectors or operations exposed to the aforementioned risks.

4 Social risk considerations represent a broad spectrum, including customer relations, human capital, demographic and societal trends, health and safety, and responsible production. The most relevant social risks for banks arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy, which are partially offset by sizeable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology costs, ageing population concerns in several countries affecting demand for financial services or socially driven policy agendas that may translate into regulations that affect banks' revenue bases.

5 Corporate governance is a well-established key driver for banks and related risks are typically included in our evaluation of the banks' financial profile. Further, factors such as specific corporate behaviour, key person risk, insider and related-party risk, strategy and management risk factors, and dividend policy may be captured in individual adjustments to the BCA.

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S INVESTORS SERVICE