Sustainable Fitch
a FitchSolutions Company

Volkswagen Financial Services AG

Financial Institutions | Bank Holding Companies | Germany | ESG Entity Rating

ESG Rating Type	ESG Rating[a]	Score	Analysis Type
Entity	3	53	Full Entity
Instrument	Not Applicable	Not Applicable	Not Applicable
Framework	Not Applicable	Not Applicable	Not Applicable

[a] ESG Rating of 1-5, where 1 is the strongest. Date ESG Rating and score assigned: 7 May 2025.
Note: For Framework, analysis types can be green, social, sustainability, sustainability-linked, conventional, or other.

ESG Rating Drivers

- Sustainable Fitch has published Volkswagen Financial Services AG's (VW FS) ESG Entity Rating at '3', which indicates an average overall ESG profile. This reflects its portfolio of financed vehicles and its limited disclosure of environmental metrics at the VW FS level.
- The rating was limited by the share of internal combustion engine (ICE) vehicles delivered by the group and financed by VW FS (80% in the combined leasing and financing portfolio), though we view the provision of mobility services and share of battery electric vehicles (EVs) financed as socially positive.
- The rating benefited from the Volkswagen Group's sound risk management and processes supported, the group-level decarbonisation targets and VW FS's environmental targets. The rating was limited by low gender diversity as well as a lack of disclosure of the gender pay gap at the senior management level.

Source: Sustainable Fitch

Contact - Analytical

Lea Gamsjager
+34 934 92 95 21
lea.gamsjager@sustainablefitch.com

Contact - Media

Tahmina Pinnington-Mannan
+44 20 3530 1128
tahmina.pinnington-mannan@thefitchgroup.com

The Entity – Highlights

VW FS is a large German captive finance company, wholly owned by the Volkswagen Group. It supports the sales of the Volkswagen Group brands alongside its subsidiary Volkswagen Bank GmbH, and it develops and sells digital products and mobility solutions. The company specialises in customer and dealer financing, leasing, and banking and insurance activities in Europe. The company had over 10,000 employees and held assets of EUR192 billion at end-2024.

The Volkswagen Group completed a reorganisation in mid-2024, consolidating VW FS and Volkswagen Bank GmbH to separate European from non-European entities under Volkswagen Financial Services Overseas AG.

VW FS is covered by its parent's "Mobility for Generations" corporate strategy and the "regenerate+" sustainability framework. The strategy defines the group's direction towards the transformation of mobility until 2035 with initiatives covering crisis resilience, technological adaptability and financial robustness.

The sustainability framework sets out principles covering nature, people (own employees), society and business. It also defines quantitative targets and KPIs in each of these areas. The group's decarbonisation strategy aligns with the 1.5°C target of the Paris Agreement and it aims to reach net carbon neutrality by 2050.

Volkswagen AG, the manufacturing entity, participates in the UN Global Compact and has near-term emissions-reduction targets validated by the Science Based Targets initiative. This positively affects VW FS's assessment.

VW FS integrated the group's strategy into its own MOBILITY2030 strategy. Its core mission under this strategy is to develop and provide a comprehensive mobility platform, giving customers digital and flexible access to mobility ranging from conventional financing and leasing options to car subscription products, enabling the use of a vehicle without having to own it. The MOBILITY2030 strategy has a strong focus on vehicle lifetime and has set sustainability targets within four focus areas: nature, employees, society and business.

We consider the company as aligned with, and benefiting from, the group's decarbonisation strategy, which will continue to foster a transformation of the financed vehicles portfolio. VW FS implemented two sustainability targets: achieve carbon neutrality in the financed vehicle portfolio by 2030 and achieve net carbon-neutral business operations by 2030. VW FS measures the carbon intensity of financed vehicles and own emissions, but does not yet disclose this information.

VW FS's sustainability governance relies on the group to a large degree. The chairman of the board holds the highest responsibility for sustainability at the group. Sustainability activities are coordinated by the group sustainability function. We identified limited information on who holds responsibility for sustainability within VW FS and on whether it has a dedicated sustainability function within the organisation.

We consider the Volkswagen Group's wider risk management as robust, providing transparent disclosure of risk governance in line with the Committee of Sponsoring Organizations of the Treadway Commission's enterprise risk management framework.

VW FS AG itself has developed an ESG risk framework through materiality analysis, identifying risk drivers affecting assets, operations and reputation. It assessed its portfolio's structure and conducted qualitative and quantitative risk evaluations across multiple time horizons for both physical and transition risks. It acknowledges ESG risk assessment as evolving, and included stress testing in its materiality assessment to better quantify the impacts.

The Volkswagen Group's sustainability report and VW FS's annual report are the main disclosure sources analysed in this report. VW FS has not published a distinct sustainability report or other non-financial disclosure, which limits transparency on sustainability metrics. The group sustainability report is based on the European Sustainability Reporting Standard (ESRS) in line with the mandatory Corporate Sustainability Disclosure Regulation (CSRD); it includes material metrics, such as disclosure on emissions and diversity, and information on governance and procedures.

Vehicle production and operation are the group's most important emissions sources. The group provides clear disclosure and externally verified decarbonisation targets. The group has robust waste and pollution policies and its codes of conduct encourage employees and suppliers to follow environmental guidelines. VW FS does not disclose its own emissions or natural resources.

We view the group's human and labour rights guidelines positively. VW FS further benefits from a lower social risk profile than its parent due to the nature of operations and the stringent human rights and labour rights standards in Germany and the rest of Europe, where 83% of employees are located. The company shows a balanced overall workforce with 51% women, though with limited female representation at the senior management level (17%).

VW FS has robust governance processes in our view, including efficient risk management and internal audit procedures. Our assessment was negatively affected by the limited diversity on the combined board and the limited number of independent board members. The group effectively integrates ESG considerations across relevant business units related to its core business of vehicle production, distribution and operations.

Source: Sustainable Fitch, Volkswagen Group annual and sustainability report 2024, VW FS annual report 2024

Broader Perspective on Sector

Sector Trajectory	Fitch's view
Short Term	• We anticipate the regulatory landscape in the EU banking sector will consolidate, with a focus on implementing existing frameworks rather than introducing new regulations. We expect EU banks continue prioritising better risk management, to help monitor climate-related financial risks and vulnerabilities. • The European Banking Authority published final guidelines in early 2025 for large banks to disclose climate-related information, including on climate risks, the share of eligible green activities and the green asset ratio. These guidelines outline requirements for internal processes and ESG risk management that banks should have to ensure the resilience of their business model and risk profile in the short, medium and long term. • The guidelines will apply to large institutions from January 2026, and from January 2027 for small and non-complex institutions. Banks have a key role in managing the financial risks for the transition to a climate-neutral economy, as enshrined in the European Green Deal. • EU bank management teams are increasingly focused on collecting environmental data from borrowers and investee companies to comply with stringent disclosure requirements, including the CSRD and Corporate Sustainability Due Diligence Directive (CSDDD). The reporting requirements of the European Commission and the International Sustainability Standards Board necessitate robust due diligence processes; banks are reliant on the data from their clients for this. • The proposed omnibus package aims to simplify EU rules on sustainability reporting and due diligence for banks under the CSRD, CSDDD and EU Green Bond Standards, subject to an ordinary legislative process. The package, if approved, will ultimately determine the final shape of the regulations. The proposals may reduce the amount and depth of information available for investors, but the overarching goal is to retain an acceptable degree of useful information, while reducing the disclosure burden. • Proposed changes to the green asset ratio calculation will likely improve the ratio by excluding exposures not under the future scope of the CSRD, thus reducing the denominator and positively affecting banks' reported ratios. Banks will not need to demonstrate compliance with taxonomy assessment (eligibility or alignment) for 10% of their assets (including loans and investments), where the total value of the assets is immaterial (less than 10% of the total asset base) and focuses on activities that represent a significant share of their revenues or capital. • The European Financial Reporting Advisory Group released draft guidance in November 2024 that provides non-authoritative support on what constitutes a robust and credible transition plan for the CSRD. However, there is a delay proposed for this reporting and even the large, listed entities will report until 2028 under the CSDDD.

Broader Perspective on Sector

Sector Trajectory	Fitch's view
	• The European Securities and Markets Authority recently launched new labelling rules for funds using ESG, sustainability, impact or environmental terms including "green", "environmental" and "climate", requiring investment thresholds of 80% alignment with specified environmental and social characteristics or sustainability investment objectives. It remains to be seen to what extent the ongoing review of the Sustainable Finance Disclosure Regulation, due to be completed at end-2025, will reflect the proposed changes under the CSRD, CSDDD and EU taxonomy. • The EU Green Bond Regulation, effective from late 2024, aims to direct investment to green activities that contribute to the EU's environmental and climate goals. Banks will be required to disclose more details on how bond proceeds will be used, along with post-issuance allocation and impact reporting. • We expect the commission will review all the technical screening criteria, and particularly the do no significant harm (DNSH) criteria, to simplify them. We expect that recently published delegated acts outlining the substantial contribution criteria and DNSH criteria for the final four environmental objectives may lead to more projects being financed through ESG labelled debt, including blue bonds and orange bonds in the short to medium term.
Long Term	• We expect simplification of the EU green bond standard and the recently updated ICMA guidelines on green, social and sustainability-linked loans will further support EU policy initiatives that encourage green and sustainable finance strategies. • Decarbonisation of banks' loans portfolios has been a central theme, with many banks aligning their financing activities to broader climate EU goals across high-emission sectors. Recently, there has been a softening of language from the Net-Zero Banking Alliance on net-zero targets for banks due to the global challenge of decarbonising their lending and investments. The Intergovernmental Panel on Climate Change also indicated that it is becoming challenging to keep the commitment to 1.5°C. • The Net-Zero Banking Alliance released revised guidelines for members, stating recommendations on setting a 2050 target to support meeting net-zero goals and the goals of the Paris Agreement. We expect the majority of EU banks to have a strategy and plans for a low-carbon transition for their lending and investments, stemming from continued EU commitments to tackle climate change and meet its 2030 and 2050 goals. • Large data gaps for social and governance risks disclosures remain, though we anticipate progress in this area due to the CSRD reporting requirements in the future. These include the ESRS S2-5 disclosures on the process of setting time-bound and outcome-oriented social targets, and the ESRS G1-1 disclosures on how social and environmental criteria are taken into account in the selection of supply-side contractual partners.

Broader Perspective on Sector

Sector Trajectory	Fitch's view
	• Continued stakeholder and regulatory pressure on EU banks over social issues and governance standards will drive their managements to address weaknesses such as gender gaps, pay disparities and executive remuneration packages to ensure alignment with broader ESG goals. • We also anticipate the quality of proxy data from borrowers on their environmental footprint will improve as new reporting requirements come into action. We expect to see more growth of green and sustainable products from banks, including eco or green mortgages and SME-targeted funding in Europe, for example, because of the accelerated push from initiatives to renovate the building stock in the EU. • EU banks face significant challenges in collecting comprehensive risk data, particularly for commercial real estate assets, which affects the accuracy of collateral valuations and lending decisions. The insufficient granularity of data collection and limited consideration of necessary infrastructure upgrades may result in the future financial impacts associated with climate change being underestimated. • We expect more emphasis on creating a standardised method for identifying banking-book credit exposures to these risks, since banks are focusing more on climate physical risks' effect on their lending and investment portfolios and adaptation measures needed to support resiliency. • Transition plans will also be in focus, with a growing number of banks articulating how they plan to implement long-term emissions reductions by developing and disclosing transition plans. Beyond meeting reporting obligations, transition plans are becoming increasingly integral to how issuers and investors analyse and manage climate-related risks and opportunities. We also expect banks to expand their labelled frameworks to include transition finance to show how they are integrating these risks in their lending and investment portfolios. • Banks can anticipate an increase in mandatory and voluntary nature-related disclosures to address nature loss and fill data gaps. The increased focus on climate change adaptation is driven by extreme weather events and biodiversity loss, which increase the urgency of enhancing resilience through adaptation projects. Developments from COP29 (the UN climate change conference) include defining targets for global climate resilience and addressing the means of implementation and enablers. We anticipate more advancements on this agenda and national adaptation plans in the EU.

Source: Sustainable Fitch

Broader Perspective on Company

Sector Trajectory	Fitch's view
Short Term	• Despite the industry consensus that electric or fuel cell vehicles will eventually dominate the automotive landscape, VW FS faces some near-term challenges as the transition proves more difficult than anticipated. • The slowdown in EV adoption during 2024, triggered by the elimination of subsidies in key markets such as Germany and by persistent supply chain disruptions, requires the company to adopt a more measured approach to transforming its financing portfolio. This necessitates maintaining flexible financing options for both conventional and electric vehicles while the market undergoes this extended transition period. • The current market volatility presents both risks and strategic opportunities for VW FS. Battery costs are gradually declining, though consumer hesitancy toward EVs requires the use of innovative financing solutions that address concerns about residual values and charging infrastructure. As the industry works through these growing pains, the company must balance supporting the group's long-term electrification strategy while maintaining financial stability during this challenging transition phase. • VW FS's initial sustainability disclosures in 2025 marks an important first step, but developing a comprehensive sustainability report with detailed metrics and targets would significantly enhance its transparency on its decarbonisation efforts. This evolution would allow stakeholders to better assess its progress towards meeting regulatory requirements, and also create strategic advantages in the evolving ESG landscape.
Long Term	• The potential simplification of the EU Taxonomy, particularly regarding DNSH criteria, presents significant opportunities for VW FS. This regulatory streamlining would likely reduce compliance costs, simplify sustainable product classification and enhance reporting efficiency. VW FS is a financial services provider deeply embedded in the automotive sector, so these changes could facilitate more agile development of green financing products while improving their attractiveness to sustainability-focused investors and customers. • The European Commission's firm commitment to ban CO2-emitting vehicles by 2035 will fundamentally transform VW FS's business model. Despite current slowdowns in zero-emission vehicle sales, the company must prepare for a dramatic shift in its financing portfolio toward EVs, requiring new risk assessment models to address different depreciation patterns and residual values. • This transition also creates opportunities to develop specialised EV financing packages that address consumer adoption concerns and potentially expand into adjacent areas such as charging infrastructure financing, positioning VW FS as a key enabler of the group's broader electrification strategy. • VW FS is likely to remain a frequent issuer of labelled debt in the sustainable finance space due to its increasing focus on the vehicles on demand business,

Entity Analysis

Broader Perspective on Company

Sector Trajectory	Fitch's view
	as well as an increasing battery EV penetration across its offerings (financing, leasing and other mobility solutions). We expect the green asset ratio to increase in coming years as battery-powered vehicle financing grows, which will simultaneously reduce emissions intensity.

Source: Sustainable Fitch

Entity Analysis

Business Activities

Company Material Core Contributions	Sustainable Fitch's View: Environmental	Sustainable Fitch's View: Social
Financing and leasing of vehicles, insurance services		
ESG Rating 4		
• The segment includes activities such as vehicle financing solutions; vehicle leasing and direct banking; and fleet management, maintenance and repairs. • It includes VW FS and its affiliated companies such as Volkswagen Leasing GmbH. Share percent Represents 100% of pre-impairment operating profit.	• The segment finances passenger cars and commercial vehicles. This includes battery EVs, which are aligned with the EU taxonomy, plug-in hybrid vehicles and ICE vehicles. • We positively consider the financing of products for battery EVs as well as plug-in hybrid electric vehicles (PHEVs). Battery EVs represent 18% of the company's leasing and financing portfolio, while PHEVs represent 2% of the portfolio. The majority of vehicles financed and leased are therefore ICE vehicles (80%), which negatively affects our rating. • Battery EVs are also contained in the green asset pool that it bases green bond issuances (totalling EUR8 billion) from VW FS and its affiliated companies Volkswagen Financial Services N.V. and Volkswagen Leasing GmbH on. The eligible asset portfolio includes zero-tailpipe emissions vehicles, which align with the EU taxonomy's substantial contribution criteria for climate change mitigation. • The taxonomy criteria for the financed vehicles include having zero tailpipe emissions, as well as a minimum reusability or recyclability of 95% by weight, with measures in place to manage waste in the use and end- of-life phases, including reuse and recycling of batteries and electronics (in particular, critical raw materials). • Sold vehicles must also comply with requirements of the Euro 6 emissions thresholds, and tyres must comply with rolling noise and rolling resistance requirements. • The group's decarbonisation programme aims for net carbon neutrality by 2050, in line with the International Energy Agency's 2°C scenario. This benefits our assessment. • VW FS's insurance segment is focused on non-life insurance, especially car insurance products. There is limited information available on the breakdown of insurance premiums, which prevents us from assessing the proportion of products with environmental characteristics.	• We consider facilitating the financing of zero-emissions vehicles for customers as socially positive, as it enables sustainable transport solutions for individuals and businesses. • The scoring is positively driven by Volkswagen AG's participation in the UN Global Compact. The last communication on progress was submitted in May 2024. • We positively consider car insurance products, as they provide several social benefits that extend beyond the individual policyholders to the broader community. These products contribute to the welfare and stability of society by providing essential financial protection, promoting safer driving, ensuring healthcare coverage for medical expenses and facilitating economic stability.
Source: Volkswagen Group annual and sustainability report 2024, VW FS annual report 2024, VW FS green finance report 2024	Source: Sustainable Fitch, based on Volkswagen Group annual and sustainability report 2024, VW FS annual report 2024, VW FS green finance report 2024, European Commission, International Energy Agency	

Entity Analysis

Environmental View
ESG Rating: 3

Profile	Fitch's View	ESG Rating
Policies	• The group's strategy and environmental policy establish the overarching framework for environmental management across subsidiaries. VW FS developed its own environmental policy statement in line with this, which outlines guidelines for implementation. • VW FS's headquarters was certified with ISO 14001:2015 for its environmental management system, in order to manage its own environmental impact.	3
Disclosure	• VW FS has been measuring emissions since 2021, but does not provide this information publicly. VW FS's pillar 3 report includes transparent disclosure of Scope 3 financed emissions for non-financial enterprises. • The scoring of this section is therefore based on the group's emissions disclosure, which covers operational Scopes 1 and 2 emissions, as well as relevant Scope 3 emissions categories.	2
Evolution	• Group-level Scopes 1 and 2 emissions decreased by 26% between 2021 and 2024. Nevertheless, overall emissions increased during the same period due to a 12% increase in Scope 3 emissions, which represent 99% of overall emissions.	5
Targets and Supply Chain	• The group has committed to the Paris Agreement, and intends to align its activities with a 1.5°C goal. The group aims for carbon neutrality by 2050 and set intermediate and long-term decarbonisation targets. The group targets a 50.4% reduction of production-related CO2 emissions by 2030 compared to 2018, as well as a reduction of CO2 emissions in the use phase for passenger cars and light commercial vehicles by 30% by 2030. The intermediate targets were approved by the Science Based Targets initiative. • VW FS's environmental targets include carbon neutrality in the financed vehicle portfolio (including financing, leasing and renting) by 2030, as well as carbon-neutral operations by 2030. We view the targets positively; however, the company has not disclosed a maximum cap for the use of offsets. • Its sustainability targets are connected to the variable remuneration as a multiplier to annual bonuses; however, we were unable to determine the share of variable remuneration based on the fulfilment of sustainability targets. • The code of conduct for business partners applies throughout the group and covers environmental protection.	2
Risks and Incident Treatment	• The Volkswagen diesel emissions scandal came to light in 2015 and continues to have legal repercussions for the group, with various proceedings ongoing today. This did not affect VW FS's rating. • We have not identified any environmental incidents specific to VW FS.	1

Source: Sustainable Fitch, based on VW FS annual report 2024, VW FS pillar 3 disclosure report, Volkswagen Group annual report 2024, Volkswagen Group environmental and energy policy statement

Social View

ESG Rating: 2

Profile	Fitch's View	ESG Rating
Human Rights	• VW FS is covered by the group's human rights statement, which provides sufficient detail. We view this positively. The group appointed a human rights officer in 2023. • VW FS annually publishes a modern slavery statement for its UK operations, in line with requirements set out by UK law. The statement for the fiscal year is not yet available at the time of analysis.	1
Labour Rights	• We positively view that the group is a signatory of the UN Global Compact. The entity has an employee code of conduct in place and is subject to the stringent European labour regulations. • The entity has confirmed that there were no labour accidents or incidents in the last three years, which is positively reflected in the rating. • VW FS reported a turnover rate of 3.67% during 2024, a decrease compared to 4.13% in the previous year. We view this positively.	1
Diversity	• The company shows balanced gender diversity across the organisation, with women representing around 51% of the workforce. • Nevertheless, the senior management level shows only 17% female employees at the level below the board (first management level). • Gender pay gap data is only publicly disclosed for UK operations. We view the UK gender pay gap as moderate (23%). VW FS has provided data for the full European operations on a confidential basis, which has positively influenced the rating. • No data are provided on the gender pay gap at senior management level.	3
Community and Customers	• VW FS provides a range of sponsorships for cultural and sports associations. It further collaborates with universities and foundations aimed at supporting disadvantaged children and youth. • The company has not disclosed quantitative measures of customer satisfaction, though the information has been provided on a confidential basis and has positively influenced the rating.	2
Targets and Supply Chain	• The company set targets for its own employees for 2030, including at least 30 hours of training per year and 32.2% female representation in management. The company has also set intermediary equality targets for the first and second management level, as well as the board for 2026. • The code of conduct for business partners applies throughout the group and covers social aspects such as human rights, business ethics and responsible supply chain management.	3
Risks and Incident Treatment	• In 2024, the UK Financial Conduct Authority fined VW FS GBP5 million for failing to treat customers in financial difficulty fairly. The company agreed to pay GBP21.5 million in redress to around 110,000 affected customers.	2

Source: Sustainable Fitch, based on VW FS annual report 2024, Volkswagen Group annual report 2024

Entity Analysis

Governance View
ESG Rating: 2

Profile	Fitch's View	ESG Rating
Financials and Reporting	• Figures reported in the annual report are not fully comparable to those of previous years due to the restructuring during 2024. • We have not identified any fines or audit remarks concerning the company's financials and reporting. • The company has further confirmed that no internal audit remarks were made in the last three years.	1
Top Management and Control	• The company's two-tier board shows some diversity, with 39% women on the combined management and supervisory board. However, there is no disclosure on other diversity metrics. • The supervisory board includes independent members, which we view positively, although they only make up a minority of the board. • The board includes employee representatives, in line with the German governance code. • The CEO and chair roles are split, which we view as best practice.	3
Remuneration	• There is no remuneration committee and the reporting does not provide details on the underlying targets for variable remuneration components. • The company has disclosed the CEO pay ratio on a confidential basis, which has positively influenced the rating.	2
Risk Management	• We positively assess the company's robust risk management due to the high integration with the parent entity and the focus on specific financed assets. • VW FS is covered under the parent's policies regarding competition, procurement and anti-corruption, but does not make any statements regarding these aspects in its own reporting. • We positively view that VW FS received an ISO 27001:2022 certification (information security), ensuring efficient data protection.	2
Tax Management	• We have not identified any presence in tax havens or tax-related fines in the last three years.	1

Source: Sustainable Fitch, based on VW FS annual report 2024, Volkswagen Group annual report 2024, Volkswagen Group environmental and energy policy statement, other VW FS material

Relevant UN Sustainable Development Goals - Entity

11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons

11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

Source: Sustainable Fitch, UN

Note: Sustainable Fitch evaluates the relevant UN Sustainable Development Goals at the entity level by considering direct contributions, not generic support.

Appendix A: Key Terms

Term	Definition
Debt Types	
Green	Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Green Bond Principles or other principles, guidelines or taxonomies.
Social	Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Social Bond Principles or other principles, guidelines or taxonomies.
Sustainability	Proceeds will be used for a mix of green and social projects and/or environmental and socialrelated activities as identified in the instrument documents. The instrument may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies.
Sustainability-linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan).
Conventional	Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective.
Other	Any other type of financing instrument or a combination of the above instruments.
Term	**Definition**
Standards	
Transition	A term applied to green, social, sustainable or sustainability-linked instruments, only when the purpose of the debt instrument is to enable the issuer to achieve a climate change-related strategy according to Fitch criteria or methodology.

Term	Definition
ICMA	International Capital Market Association. The “ICMA” credential on page 1 refers to alignment with ICMA’s Principles and Guidelines: a series of principles and guidelines for green, social, sustainability and sustainability-linked (or KPI-linked) instruments.
EU Taxonomy Alignment	Sustainable Fitch follows a series of steps to determine a green instrument’s alignment with the EU taxonomy. First, we determine if eligible projects within each UoP category are eligible under an EU taxonomy category. Then we determine if all eligible projects under the UoP align with the relevant substantial contribution criteria (SCC), do no significant harm criteria (DNSH) and minimum safeguard (MS) criteria as established by the taxonomy. The taxonomy alignment metric indicates the percentage of UoP categories that are fully aligned with all three pillars of the taxonomy. In line with EU guidance, we do not assess any remaining steps if we could not confirm the previous step, eg we do not assess DNSH and MS alignment if we could not confirm alignment with the SCC.
Other Terms	
ESG debt	Green, social, sustainability and sustainability-linked types of debt.
Short term	Within five years.
Long term	At least six years away.
Entity’s business activity overlap with use of proceeds	The share of the entity’s total business activities that can use proceeds from the debt instrument in question.
NACE	An industry standard classification system for economic activities in the EU, based on the United Nations’ International Standard Industrial Classification of All Economic Activities (ISIC).

Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group

Appendix B: Methodology and ESG Rating Definitions

Fitch's ESG Ratings are designed to indicate an entity's Environmental, Social and Governance (ESG) performance and commitment, as well as its integration of ESG considerations into its business, strategy and management, with a focus on actions and outcomes rather than purely on policies and broader commitments.

There are three ratings: the ESG Entity Rating (ESG ER), ESG Instrument Rating (ESG IR) and, for debt instruments linked to ESG key performance indicators (KPIs) and/or use of proceeds, the ESG Framework Rating (ESG FR). ESG Ratings are on a scale from one to five, where one represents full alignment with ESG best practice. Behind each rating sit scores of zero to 100, as well as sub-scores for even greater granularity.

Sustainable Fitch's analysts assess all the business activities of an entity and more than 40 additional headline factors, covering all three ESG pillars. For debt instruments, they assess use of proceeds and more than 20 additional headline factors.

Fitch provides individual datasets with grades and commentary through a feed. The score and sub-score database allows direct comparison of entities and instruments, on a full ESG basis or on selected fields.

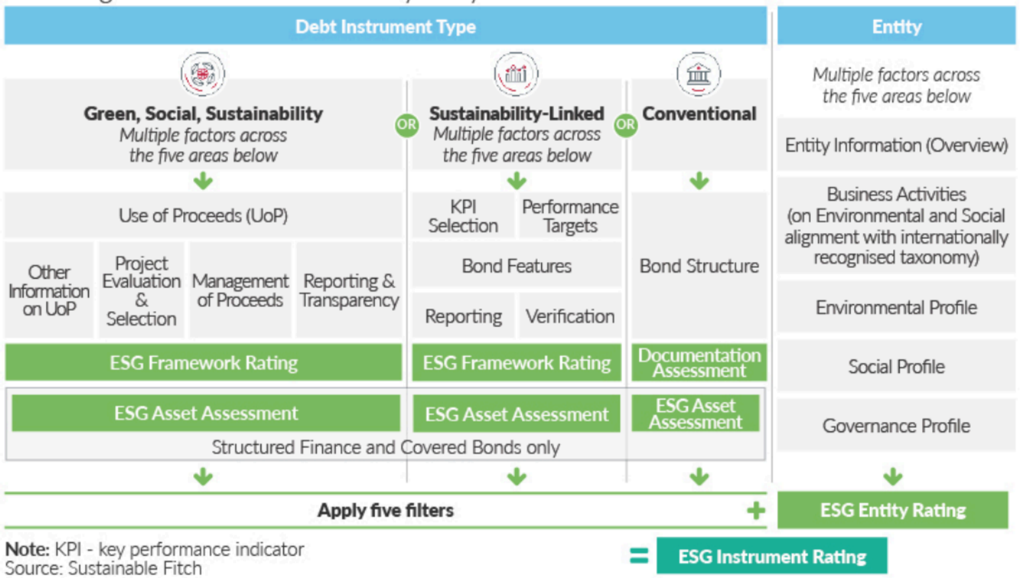
ESG ERs consider the issuer's strategy, how it relates to sustainability, and how sustainability is embedded in the issuer's business, including ESG policies, procedures, and outcomes. The entity is broken down into constituent business units, with NACE codes, for a granular assessment of E and S factors. Fitch assesses G aspects at the company level.

ESG FRs consider any type of bond, with varying analysis if there is a defined use of proceeds, KPI-linked coupon, or conventional bond. The rating aims to identify the strength of the bond framework on a standalone basis, separate to the entity, regardless of any self-assigned descriptions. Fitch analysts categorise bonds as Green, Social or Sustainability (GSS) types independently, based on their view of the main area covered by the use of proceeds, rather than automatically using the entity's categorisation. They will also determine if the bond should be classed as a transition bond and if it aligns with the EU Green Bond Standard and ICMA principles. Analysis considerations include the use of proceeds and sustainability-linked targets that form the primary purpose of the instrument, and the structure and effectiveness of the framework being used to further that purpose.

ESG IRs consider different types of debt instruments in the context of the issuing entity, enabling absolute ESG credentials comparisons for similar types of instruments issued by different types of entities, different types of instruments issued by different issuers, as well as different types of instruments issued by a single entity.

Analytical Process
Analysis considers all available relevant information (ESG and financial), including the entity's ESG report. Fitch's ESG Rating Reports transparently display the sources of information analysed for each section and provide a line-by-line commentary on the sub-factors analysed.

Fitch's ESG Rating Process
A visual guide to our debt and entity analysis



Note: KPI - key performance indicator
Source: Sustainable Fitch

An important part of the analysis is the assessment of the E and S aspects of the use of proceeds and business activities. In considering those aspects, the rating framework is inspired by major taxonomies (e.g. the EU taxonomy for E aspects, and the UN Sustainable Development Goals for S aspects). Once the analyst has completed the model, with commentary for the related ESG Ratings, it is submitted to the approval committee, which reviews the model for accuracy and consistency. ESG Ratings are monitored annually or more frequently if new information becomes available.

Use Cases
Sustainable Fitch's ESG Ratings can help inform decisions related to:

- Investment strategy
- Asset allocation and portfolio construction
- Benchmarking and index construction
- Risk management and stress testing
- Identification of transition bonds
- Disclosure and reporting.

Rating Scale and Definitions

	ESG Entity	ESG Instrument	ESG Framework
1	ESG ER of '1' indicates that the entity analysed evidences an excellent ESG profile. Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '1' indicates that the debt instrument in the context of the ultimate issuing entity evidences an excellent ESG profile. Entity is excellent both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is excellent in terms of framework structure and proceeds destination.	ESG FR of '1' indicates that the framework for the instrument evidences an excellent ESG profile. Framework structure is excellent in terms of alignment with ambitious best practises and proceeds are dedicated to excellent environmental and/or social activities/projects according to taxonomies of reference.
2	ESG ER of '2' indicates that the entity analysed evidences a good ESG profile. Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '2' indicates that the debt instrument in the context of the ultimate issuing entity evidences a good ESG profile. Entity is good both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is good in terms of framework structure and proceeds destination.	ESG FR of '2' indicates that the framework for the instrument evidences a good ESG profile. Framework structure is good in terms of alignment with ambitious best practises and proceeds are dedicated to good environmental and/or social activities/projects according to taxonomies of reference.
3	ESG ER of '3' indicates that the entity analysed evidences an average ESG profile. Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '3' indicates that the debt instrument in the context of the ultimate issuing entity evidences an average ESG profile. Entity is average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is average in terms of framework structure and proceeds destination.	ESG FR of '3' indicates that the framework for the instrument evidences an average ESG profile. Framework structure is average in terms of alignment with ambitious best practises and proceeds are dedicated to average environmental and/or social activities/projects according to taxonomies of reference.
4	ESG ER of '4' indicates that the entity analysed evidences a subaverage ESG profile. Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '4' indicates that the debt instrument in the context of the ultimate issuing entity evidences a sub-average ESG profile. Entity is sub-average both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is sub-average in terms of framework structure and proceeds destination.	ESG FR of '4' indicates that the framework for the instrument evidences a sub-average ESG profile. Framework structure is sub-average in terms of alignment with ambitious best practises and proceeds are dedicated to subaverage environmental and/or social activities/projects according to taxonomies of reference.
5	ESG ER of '5' indicates that the entity analysed evidences a poor ESG profile. Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management.	ESG IR of '5' indicates that the debt instrument in the context of the ultimate issuing entity evidences a poor ESG profile. Entity is poor both in terms of alignment of the activities with taxonomies of reference and integration of ESG considerations into the business, strategy and management. Instrument is poor in terms of framework structure and proceeds destination.	ESG FR of '5' indicates that the framework for the instrument evidences a poor ESG profile. Framework structure is poor in terms of alignment with ambitious best practises and proceeds are dedicated to poor environmental and/or social activities/projects according to taxonomies of reference.

Source: Sustainable Fitch

Sustainable Fitch
a FitchSolutions Company

Solicitation

Status	Solicited
The Ratings were solicited and assigned or maintained by Sustainable Fitch at the request of the rated entity.	