FitchRatings

Banks
Italy

Mediobanca - Banca di Credito Finanziario SPA

Ratings

Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3
Derivative Counterparty Rating	BBB-(dcr)
Viability Rating	bbb-
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	BBB-
Long-Term Local-Currency IDR	BBB-
Country Ceiling	AA-

Outlooks

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

Key Rating Drivers

Capitalisation a Rating Strength: Mediobanca – Banca di Credito Finanziario's (Mediobanca) ratings reflect that capital is managed with satisfactory buffers over regulatory requirements (13.9% transitional CET1 ratio at end-March 2020) and that the bank has a sound leverage ratio by international standards. Capitalisation is underpinned by a good record of internal capital generation. Encumbrance by unreserved impaired loans and sovereign risk is consistently among the lowest in the Italian banking sector.

Strong Franchises: Mediobanca has a specialised business model and benefits from strong competitive positions in selected businesses in Italy. It has leading investment banking (CIB) and consumer finance franchises and has expanded its wealth management activities and distribution capabilities in recent years. Its 2020-2023 strategic plan targets business and revenue growth through continued investments in distribution and innovation.

Weakening Profitability: We expect lower business volumes this year, primarily from consumer and investment banking activities, higher loan impairment charges (LICs), and a weaker contribution from equity-accounted Assicurazioni Generali S.p.A. (BBB+/Stable), resulting in weaker profitability. We expect the quality and stability of earnings to benefit from the expansion of wealth management and growing consumer lending volumes as demonstrated in recent years.

The bank has good control over its cost base, despite investment in business growth. Assicurazioni Generali contributed around 14% of total revenues in 2019.

Asset Quality Vulnerable to Downturn: We consider asset quality vulnerable to the downturn given the bank's exposure to consumer lending and corporate clients. Our assessment of asset quality (a gross impaired loan ratio below 5% and coverage above 65% at end-March 2020) recognises that, in previous economic cycles, the bank's asset quality consistently outperformed the domestic banking sector.

Adequate Funding, Sound Liquidity: The bank's funding structure is diversified and benefits from a growing deposit base. Customer deposits have gradually replaced a portion of wholesale funding over the years. Liquidity is backed by adequate buffers of unencumbered eligible assets. Regulatory liquidity coverage and net stable funding ratios are satisfactorily above minimum requirements. Following Italy's downgrade, we consider Mediobanca's relative attractiveness to institutional investors as an Italian bank issuer to also have reduced.

Rating Sensitivities

Sovereign Rating, Operating Environment: Mediobanca's ratings are primarily sensitive to deterioration in the operating environment in Italy and to Italy's sovereign rating. If Italy's sovereign rating is downgraded, Mediobanca's ratings are likely to be downgraded.

Ratings could be downgraded if the CET1 ratio falls below 13% without prospect of recovering in the short term. This weakening of capitalisation could be caused by a delay in the recovery of Italy's economy, which could result in prolonged damage to the bank's asset quality, earnings and ultimately capital.

Upside Potential Unlikely: An upgrade is unlikely and would require an upgrade of Italy's sovereign rating. Pressures on risk appetite, asset quality and profitability arising from the economic fallout from the coronavirus pandemic would need to ease.

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Global Economic Outlook: Crisis Update May 2020 - Coronavirus Shock Broadens (May 2020)

Fitch Downgrades Four Italian Banks Following Sovereign Downgrade (May 2020)

Weak Economic Outlook Puts Pressure on Italian Bank Ratings (April 2020)

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Mediobanca - Banca di Credito Finanziario SPA - Debt Rating Classes

Rating level	Rating
Deposit Rating	BBB/F3
Senior preferred debt	BBB-/F3
Senior non-preferred debt	BB+
Tier 2 subordinated debt	BB

Source: Fitch Ratings

Mediobanca's deposit rating is one notch above the Long-Term IDR to reflect the protection provided to depositors, who rank senior to other creditors, by more junior instruments, including senior preferred debt.

The senior non-preferred (SNP) debt is rated one notch below the Long-Term IDR to reflect the risk of below average recoveries arising from the use of more senior debt to meet resolution buffer requirements and the combined buffer of AT1, Tier 2 and SNP debt being unlikely to exceed 10% of risk-weighted assets. For the same reason, the rating of senior preferred debt is in line with the Long-Term IDR.

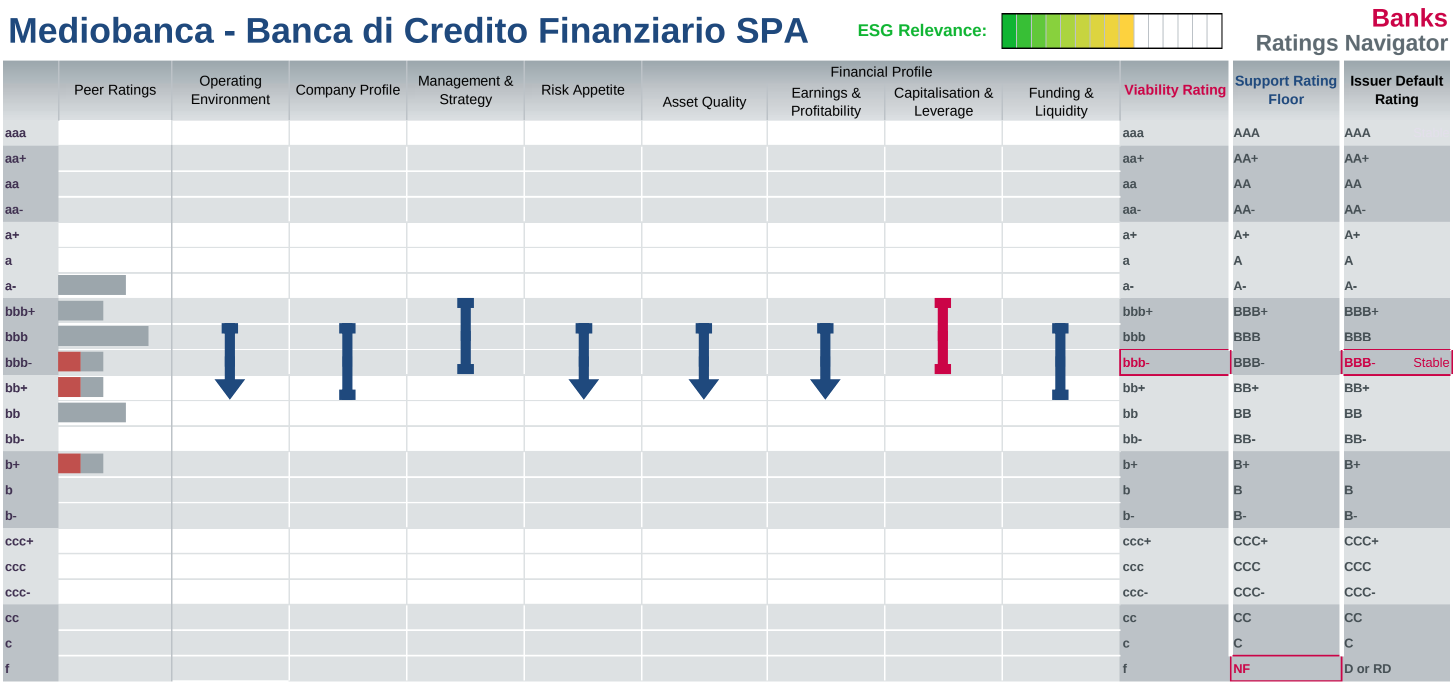
Mediobanca International (Luxembourg) SA

Rating level	Rating
Senior preferred debt	BBB-/F3

Source: Fitch Ratings

The ratings of the senior preferred debt issued by Mediobanca International (Luxembourg) SA are equalised with the parent's Long-Term IDR since the debt is unconditionally and irrevocably guaranteed by Mediobanca. Fitch expects the parent to honour this guarantee.

Ratings Navigator



Significant Changes

Negative Operating Environment Outlook

The banking sector outlook has deteriorated since the COVID-19 shock. We had previously expected a stabilisation in performance and further asset quality improvement in 2020. We revised the sector Outlook for Italian banks to Negative from Stable and also revised the Outlook on the assessment of the operating environment for Italian banks to Negative from Stable in March 2020. The deep recession will likely amplify credit quality risks and put pressure on earnings and profitability for the banking sector. Government support measures for the corporate and household sectors, including guarantees on loans to SMEs, should partly support asset quality and mitigate the adverse impact on banks.

Ratings Downgraded Following Sovereign Downgrade

Mediobanca's ratings were downgraded in May 2020 following Italy's sovereign downgrade to 'BBB-'/Stable to reflect the significant influence that the Italian economy and Italian sovereign risk have on its credit profile. In downgrading the ratings, we considered: i) the likelihood of asset quality metrics deteriorating; ii) the potential pressure on capitalisation; iii) the links between sovereign risk, the bank's funding profile and market access. We expect Mediobanca's capitalisation to remain resilient through the crisis and this has a high influence on its ratings.

No Major Shift from New Strategic Plan

Mediobanca's 2019-2023 strategic objectives are a continuation of the previous plan and coherent with its business model, giving increasing emphasis to wealth management activities. For the more established CIB and consumer banking activities, the plan aims to consolidate and protect its competitive position. Business volumes and revenues are supported through continued investments in distribution and innovation. Organic expansion is prioritised. Fitch expects the bank to maintain its well-controlled risk appetite. Under its plan, Mediobanca intends to operate with a minimum CET1 ratio of 13.5% (or 12.5% fully loaded and fully deducting the stake in Generali from CET1 capital).

Mediobanca has a good record of meeting its objectives and has been executing well on its previous 2016-2019 strategic plan.

Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧	Positive	⇩	Negative
⇳	Evolving	▫	Stable

Ownership Changes; Board Renewal

In 2H19, the group's ownership changed with the divestment of the stake held by UniCredit S.p.A. (BBB-/Stable). Leonardo Del Vecchio, founder and executive chairman of eyewear producer EssilorLuxottica, became the bank's largest shareholder with a 9.89% stake. In May 2020, he submitted a request to increase his stake to up to 20% to the Bank of Italy.

Following UniCredit's sale, the long-standing consultation agreement with the bank's major shareholders has become less important and now represents only 13% of the shares. A new board of directors will be appointed in October 2020 as the present board expires. The bank plans to further align its statutes with market practice. Fitch does not expect recent ownership changes to alter board effectiveness and oversight over management.

Navigator Peer Comparison

Peer Group Summary

	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating
Mediobanca - Banca di Credito Finanziario SPA	bbb-	bbb-	bbb	bbb-	bbb-	bbb-	bbb	bbb-	bbb-
Intesa Sanpaolo S.p.A.	bbb-	bbb	bbb	bbb-	bb	bbb-	bbb	bbb	bbb-
Credito Emiliano S.p.A.	bbb-	bbb-	bbb	bbb-	bbb-	bbb-	bbb	bbb-	bbb-

Source: Fitch Ratings

Company Summary and Qualitative Assessment

Italian Operating Environment

Mediobanca's significant domestic activities expose it to Italy's challenging operating environment. The Italian economy was already in a weak position when the COVID-19 shock hit. Real GDP grew by only 0.3% in 2019. The economy has effectively stagnated over the past two years. At 26 May 2020, Fitch expected a 9.5% GDP contraction in 2020 and a partial 4.2% recovery in 2021. The country is weighed down by an extremely high level of general government debt, the sustainability of which was one of the key drivers for the downgrade of Italy in April 2020.

Structurally, Italy continues to have a large, high value-added, diversified and wealthy economy. The Italian private sector has some buffers to withstand the sharp short-term deterioration in the economic outlook. Italy has experienced improvement in both household and corporate sector financial balances since 2012. Household debt is extremely low (53% of GDP in 3Q19) compared to other European countries, and net financial wealth (financial assets minus financial liabilities) at 195% of GDP is well above the level across the eurozone (153%).

Increasingly Diverse Business Model

Mediobanca's business mix combines CIB activities, in which the bank has established a good record and strong brand recognition in Italy, with a leading domestic franchise in consumer lending (through subsidiary Compass Banca) and growing wealth and private banking operations (through CheBanca!). The bank accompanies its organic business expansion with some acquisitions aimed at strengthening its franchise in its chosen businesses. Mediobanca's business model has allowed it to generate value while maintaining better profitability, asset quality and capitalisation than most domestic peers through the economic and interest cycles.

Controlled Risk Appetite

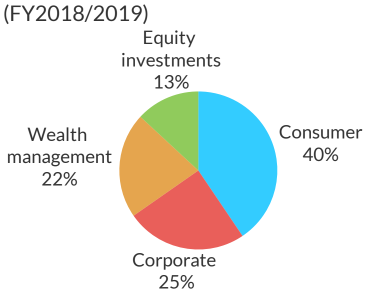
Mediobanca has a controlled risk appetite, underpinned by sound underwriting standards and a good risk control framework, and our assessment of risk appetite is based on the expectation that the recent ownership changes and the planned board renewal will not result in an increase in risk appetite. The bank is primarily exposed to credit risk in its corporate, consumer and mortgage loan portfolios.

Underwriting standards are in line with broad industry practices. Its lending policy is sufficiently conservative and has resulted in a much lower level of impaired assets and credit losses than the rest of the domestic banking sector. In CIB, Mediobanca has some tolerance for single-name concentrations, but risk within this exposure is well managed. Credit risk in its securities portfolio is limited.

Mediobanca holds a 13% stake in Italian insurer Assicurazioni Generali. The equity holding had a market value of about EUR2.5 billion at end-2019 and its book value (EUR3.7 billion) was equal to about 45% of end-March 2020 CET1 capital (excluding the portion of the stake that is already deducted from it). The bank is exposed to market risk through its material trading operations, but exposure is average for a bank with CIB activities and its holdings of Italian sovereign bonds limited.

Revenue Breakdown by Business

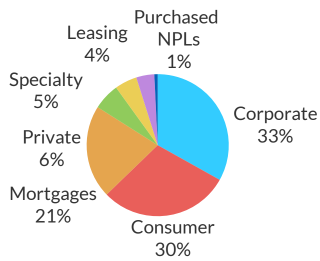
(FY2018/2019)



Source: Fitch Ratings, Mediobanca

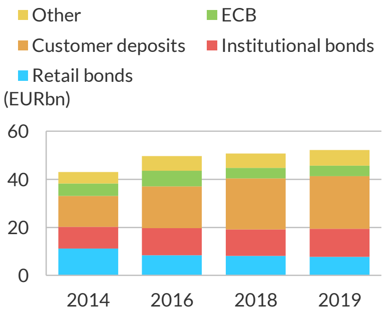
Loan Breakdown by Business

(At end-2019)



Source: Fitch Ratings, Mediobanca

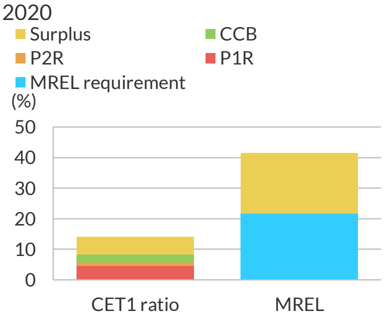
Funding Evolution



Source: Fitch Ratings, Mediobanca

Regulatory Requirements

2020



Source: Fitch Ratings, Mediobanca

Summary Financials and Key Ratios

	31 Dec 19		30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
	6 months - interim	6 months - interim	Year end	Year end	year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	879	782.4	1,510.0	1,454.3	1,362.8	1,284.8
Net fees and commissions	284	253.1	440.5	456.3	377.9	322.7
Other operating income	305	271.9	456.5	475.7	507.8	449.5
Total operating income	1,469	1,307.4	2,407.0	2,386.3	2,248.5	2,057.0
Operating costs	666	592.8	1,209.7	1,167.0	1,143.0	990.9
Pre-impairment operating profit	803	714.6	1,197.3	1,219.3	1,105.5	1,066.1
Loan and other impairment charges	150	133.5	210.4	216.0	297.6	421.1
Operating profit	653	581.1	986.9	1,003.3	807.9	645.0
Other non-operating items (net)	64	56.6	95.8	92.5	106.1	91.3
Tax	189	168.5	256.5	228.1	171.8	128.7
Net income	527	469.2	826.2	867.7	742.2	607.6
Other comprehensive income	n.a.	n.a.	-145.2	-106.5	-272.1	-287.2
Fitch comprehensive income	527	469.2	681.0	761.2	470.1	320.4
Summary balance sheet						
Assets						
Gross loans	53,116	47,281.0	45,038.5	41,623.2	39,105.7	35,061.2
- Of which impaired	2,455	2,185.2	2,017.5	2,231.0	2,055.7	1,998.5
Loan loss allowances	1,656	1,474.0	1,373.5	1,525.3	1,550.2	1,458.3
Net loans	51,460	45,807.0	43,665.0	40,097.9	37,555.5	33,602.9
Interbank	3,656	3,254.6	2,750.5	1,114.5	868.2	1,259.5
Derivatives	384	341.9	3,186.8	3,789.1	3,711.7	6,077.6
Other securities and earning assets	33,766	30,056.9	24,987.0	23,353.4	24,583.8	26,482.7
Total earning assets	89,266	79,460.4	74,589.3	68,354.9	66,719.2	67,422.7
Cash and due from banks	221	196.7	997.4	1,450.4	1,539.0	319.2
Other assets	3,148	2,802.0	2,658.0	2,495.2	2,187.4	2,076.7
Total assets	92,635	82,459.1	78,244.7	72,300.5	70,445.6	69,818.6
Liabilities						
Customer deposits	25,267	22,491.4	22,791.6	20,291.1	19,592.1	15,442.0
Interbank and other short-term funding	17,738	15,789.8	15,067.2	13,292.4	13,463.4	14,662.8
Other long-term funding	24,107	21,458.6	20,134.0	20,608.5	20,108.7	21,813.1
Trading liabilities and derivatives	12,030	10,708.5	8,442.0	6,695.5	6,261.8	7,481.4
Total funding	79,142	70,448.3	66,434.8	60,887.5	59,426.0	59,399.3
Other liabilities	1,875	1,668.7	1,911.0	1,680.8	1,827.9	1,497.5
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	11,618	10,342.1	9,898.9	9,732.2	9,191.7	8,921.8
Total liabilities and equity	92,635	82,459.1	78,244.7	72,300.5	70,445.6	69,818.6
Exchange rate		USD1 = EUR0.89015	USD1 = EUR0.878734	USD1 = EUR0.8633	USD1 = EUR0.8763	USD1 = EUR0.9007

Source: Fitch Ratings, Fitch Solutions, Bank

Summary Financials and Key Ratios

	31 Dec 19	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.5	2.1	2.1	1.5	1.2
Net interest income/average earning assets	2.0	2.1	2.1	2.1	1.9
Non-interest expense/gross revenue	52.8	58.0	55.4	57.6	55.7
Net income/average equity	9.3	8.7	9.2	8.2	7.0
Asset quality					
Impaired loans ratio	4.6	4.5	5.4	5.3	5.7
Growth in gross loans	5.0	8.2	6.4	11.5	-6.6
Loan loss allowances/impaired loans	67.5	68.1	68.4	75.4	73.0
Loan impairment charges/average gross loans	0.6	0.5	0.5	0.8	1.2
Capitalisation					
Common equity Tier 1 ratio	14.1	14.1	14.2	13.3	12.1
Fully loaded common equity Tier 1 ratio	12.9	12.8	13.1	13.5	n.a.
Fitch Core Capital ratio	20.0	19.4	19.0	16.4	15.7
Tangible common equity/tangible assets	11.6	11.6	12.6	12.4	12.2
Basel leverage ratio	8.2	8.4	8.8	9.5	8.1
Net impaired loans/common equity Tier 1	10.7	9.9	10.5	7.2	8.3
Net impaired loans/Fitch Core Capital	7.5	7.2	7.9	5.9	6.4
Funding and liquidity					
Loans/customer deposits	210.2	197.6	205.1	199.6	227.1
Liquidity coverage ratio	193.0	143.0	186.0	245.0	n.a.
Customer deposits/funding	32.1	36.6	35.7	35.4	28.8
Net stable funding ratio	103.0	107.0	108.0	107.0	n.a.

Source: Fitch Ratings, Fitch Solutions, Bank

Key Financial Metrics – Latest Developments

Asset Quality Vulnerable to Downturn

Mediobanca's mortgage and consumer loan books are entirely domestic. Asset quality stability has been supported by impaired consumer loans being regularly written off, which is a feature of this business model. The corporate loan book is reasonably diversified by sector and benefits from international diversification. However, we consider Mediobanca's asset quality vulnerable to the downturn given the significance of its domestic consumer and corporate exposure, the latter featuring higher-than-average borrower concentration levels.

Our assessment of Mediobanca's asset quality also takes into account its limited holdings of Italian sovereign bonds.

Possible Profit Weakness

We expect the impact of lower business volumes, primarily from its consumer and investment banking activities and higher LICs, but also a weaker contribution from equity accounted Assicurazioni Generali, to result in weaker profit.

Since March 2020, the origination of new residential mortgages has significantly decreased due to financial uncertainties and the impact of the lockdown on legal/valuation activities. New consumer loans dropped by 40% in March (and as much as 80% in the second two weeks in March and April), with demand for consumer lending halving. The bank expects to potentially reach 40% or 50% of its typical volume of new loans in the first part of the next financial year, but that to take at least two to three quarters before business goes back to more normal origination volumes. Income in 3Q20 income showed a reasonable resilience in wealth management fees and still increasing net interest income (NII). LICs doubled in the quarter, largely driven by consumer lending.

Earnings benefit from the contribution from the investment in Generali, which accounted for around 14% of total operating income in 2019.

Earnings and profitability over the past four years benefited from the expansion of wealth management activities despite the investment costs required to expand its franchise in this segment, and we expect the quality of earnings to continue to benefit from this expansion over the long term. Growing consumer lending volumes, where margins remain high, also underpinned operating performance.

Capitalisation a Relative Rating Strength

Mediobanca enters the downturn with strong capital as its transitional CET1 ratio stood at 13.9% (calculated excluding 60bp of dividend accrued in the first six months of its FY19/20). It also had a satisfactory buffer (approximately 600bp) over its reduced MDA threshold of 7.94% (following the earlier application of Article 105 Capital Requirement Directive V on its 1.25% Pillar 2R). Its fully-loaded ratio was equivalent to 12.66% assuming the full deduction of Assicurazioni Generali from CET1 capital and fully-loaded IFRS9 treatment.

The bank estimates a CET1 ratio of 15% (ahead of any dividend distribution) at end-FY21, assuming annual LICs/gross loans slightly above 100bp (i.e. doubling from 1H20 levels).

The bank's unreserved impaired loans in relation to CET1 capital was a low 10.7% at end-2019, and domestic sovereign debt exposure was around 50%.

Regulatory capital ratios increased at the bank over the past few years owing to the combined effect of the adoption of advanced internal rating based models (which resulted in lower RWAs) and retained earnings. The bank considers the potential impact of changing regulatory rules on regulatory capitalisation to be limited.

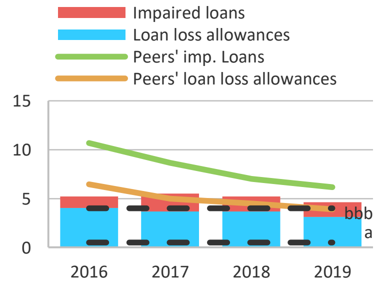
The bank plans to optimise capital and operate with a fully-loaded CET1 ratio of 12.5% (calculated fully deducting the stake in Generali) throughout 2019-2023. Mediobanca also plans to distribute excess capital over its equivalent transitional CET1 13.5% target ratio back to shareholders. In its plans Mediobanca had revised its dividend payout upwards to 50% (from the previous 40%) although the bank is likely to update its dividend policy in light of the changed operating environment when it publishes its full-year results next July. We expect the

Notes on Charts

Black dashed lines in the charts below represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category. The peer average includes UniCredit S.p.A. (VR: bbb), Intesa Sanpaolo S.p.A. (bbb), Credito Emiliano S.p.A. (bbb).

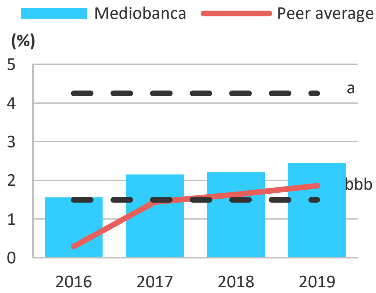
Asset Quality

(% gross loans)



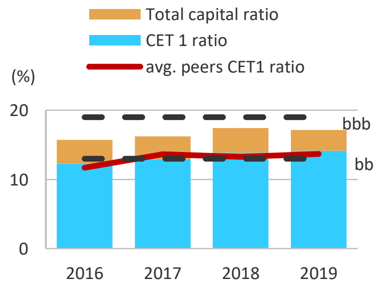
Source: Fitch Ratings, banks

Operating Profit/RWAs



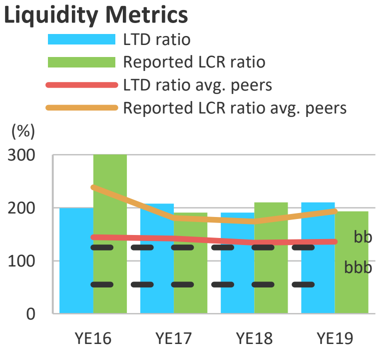
Source: Fitch Ratings, banks

Risk-Weighted Capital Ratios



Source: Fitch Ratings, banks

Liquidity Metrics



Source: Fitch Ratings, banks

bank to prioritise capital conservation over dividend distribution, if necessary, particularly in light of the changed circumstances after the pandemic outbreak.

Adequate Funding; Sound Liquidity

Funding and liquidity are generally stable, while non-deposit funding sources are significant. Its loans/customer deposit ratio of nearly 200% is well above those of other domestic rated banks, reflecting the bank's historical utilisation of primarily wholesale funding sources. Over EUR20 billion of wholesale funding was outstanding at end-March 2020, including EUR4.7 billion of central bank facilities, which will be extended by an extra EUR1.5 billion to support NII.

The bank's access to the institutional funding market is good. Medium-term funding needs, including maintaining compliance with Minimum Requirement for own funds and Eligible Liabilities (MREL) targets, are manageable, and Mediobanca raised EUR500 million by issuing its first senior non-preferred bond in February 2020. Mediobanca is also an active issuer of asset-backed securities and covered bonds.

Reliance on wholesale funding has decreased as Mediobanca has developed its retail and wealth management franchises, resulting in an increased customer deposit base. Customer deposits represented around one-third of total funding (excluding derivatives) at end-March 2020, up from less than 25% at end-June 2016. Retail funding is also raised through regular issuances of senior preferred bonds placed through third-party networks, which represented 15% of total funding at end-2019, although we expect this source to become less important.

No Sovereign Support Factored Into Ratings

We believe that Mediobanca's senior creditors cannot rely on extraordinary support from the Italian authorities if the bank is declared non-viable. This is in line with other Italian and eurozone banks and reflects our belief that the authorities' propensity to support the banking system and their ability to do so ahead of senior bondholders participating in losses has decreased materially following the implementation of recovery and resolution legislation.

Support Rating Floor	Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)	BBB to BB+
Actual country D-SIB SRF	NF
Support Rating Floor:	**NF**

Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy		✓	
Size of potential problem		✓	
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance			✓
Liability structure of bank			✓
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Environmental, Social and Governance Considerations

The highest level of ESG credit relevance for Mediobanca is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

Credit-Relevant ESG Derivation

Mediobanca - Banca di Credito Finanziario SPA has 5 ESG potential rating drivers

- Mediobanca - Banca di Credito Finanziario SPA has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The 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 Priniciples 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.

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.