FitchRatings

PJSC Sovcombank

Key Rating Drivers

Intrinsic Strength Drives Ratings: PJSC Sovcombank's (SCB) ratings capture its strong financial profile, as expressed by its sound profitability, consistently low impaired loan ratios, and a reasonable funding profile. These strengths are balanced with only moderate capital ratios, and elevated risk appetite. Although most of SCB's financial metrics are consistent with a higher rating, fast loan growth (including through regular bank acquisitions) and certain franchise limitations constrain the ratings to the sub-investment-grade range, in Fitch Ratings' view.

Low Impaired Loan Ratios: At end-2Q21, SCB's impaired loans (defined as Stage 3 loans under IFRS 9) amounted to a low 2.3% of gross loans and were 1.6x covered by reserves. Loan impairment charges (LICs) moderated to 1.4% (annualised) of gross loans in 2Q21 from 3% in 2020, and we believe LICs are likely to remain below 2% in 2021. The quality of SCB's largest corporate loans is reasonable, in Fitch's view, but a little weaker than at higher-rated Russian peer banks. In retail, secured lending prevails, reducing risks.

Significant Treasury Business: Overall asset quality is supported by the low share of the net loan book, which we view as the major source of credit risks, in SCB's total assets (54% at end-2Q21). Most non-loan exposures lie in SCB's sizeable bond portfolio, amounting to 3.2x common equity Tier 1 (CET1) capital at end-2Q21. A significant treasury business gives rise to market risks, as most of the bonds are booked at fair value.

Rapid Asset Growth: In 1H21 SCB's organic loan growth was a high 31%. In addition to fast growth, SCB has a long record of acquiring other banks and/or their loan portfolios. Although execution has been strong to date, leading to greater business diversification and franchise expansion, Fitch views this strategy as opportunistic and as evidence of higher risk appetite.

Strong Profitability: SCB has a long record of consistently stronger profitability than the sector average. Pre-impairment profit is supported by wide margins (6.5% in 1H21, which was 220bp above the sector average) and amounts to a high 8% of gross loans, providing SCB with strong loss-absorption capacity. Annualised return on equity (ROE) was a high 32% in 1H21. In the medium term we expect SCB's ROE to moderate but to stay strong, at around 25%.

Only Moderate Capital Ratios: SCB's IFRS-based Basel III CET1 capital ratio was a moderate 10.3% at end-2Q21. Fitch believes that, despite its strong internal capital generation capacity, SCB will continue to operate with moderate capital buffers due to fast organic growth and/or M&A activities. We expect SCB's CET1 capital ratio to remain below 11% in the medium term. At end-2Q21, the headroom of SCB's regulatory capital ratios over the statutory minimums (including buffers) was in the 50bp-100bp range, which is thin, in Fitch's view.

Deposit-Funded; Strong Liquidity: At end-2Q21, SCB was predominantly funded by customer accounts (76% of total liabilities). We view SCB's deposit base as stable, although SCB's cost of customer funding (3.8% in 1H21) is slightly above those of higher-rated peers. The liquidity position is strong, as expressed by a low 83% ratio of gross loans to deposits.

Rating Sensitivities

Capital; Company and Risk Profile: A positive rating action would require: higher capital ratios, with the CET1 ratio being sustainably above 13%, which is a threshold for a 'bbb' category capital score under our Bank Rating Criteria; further franchise expansion; and a record of lower risk appetite. The latter could be manifested in lower asset growth, a moderation of risks in SCB's treasury business, and a more limited appetite for bank acquisitions.

Asset Quality and Performance: SCB's ratings could be downgraded if LICs increased sharply, resulting in negative or close to negative net income for several consecutive quarters.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB+
Viability Rating	bb+
Support Rating	4
Support Rating Floor	B+
Sovereign Risk	
Long-Term Foreign-Currency IDR	BBB
Long-Term Local-Currency IDR	BBB
Country Ceiling	BBB

Outlooks

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

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Russian Banks Datawatch 1H21 (August 2021)
Fitch Affirms Russia at 'BBB'; Outlook Stable (July 2021)

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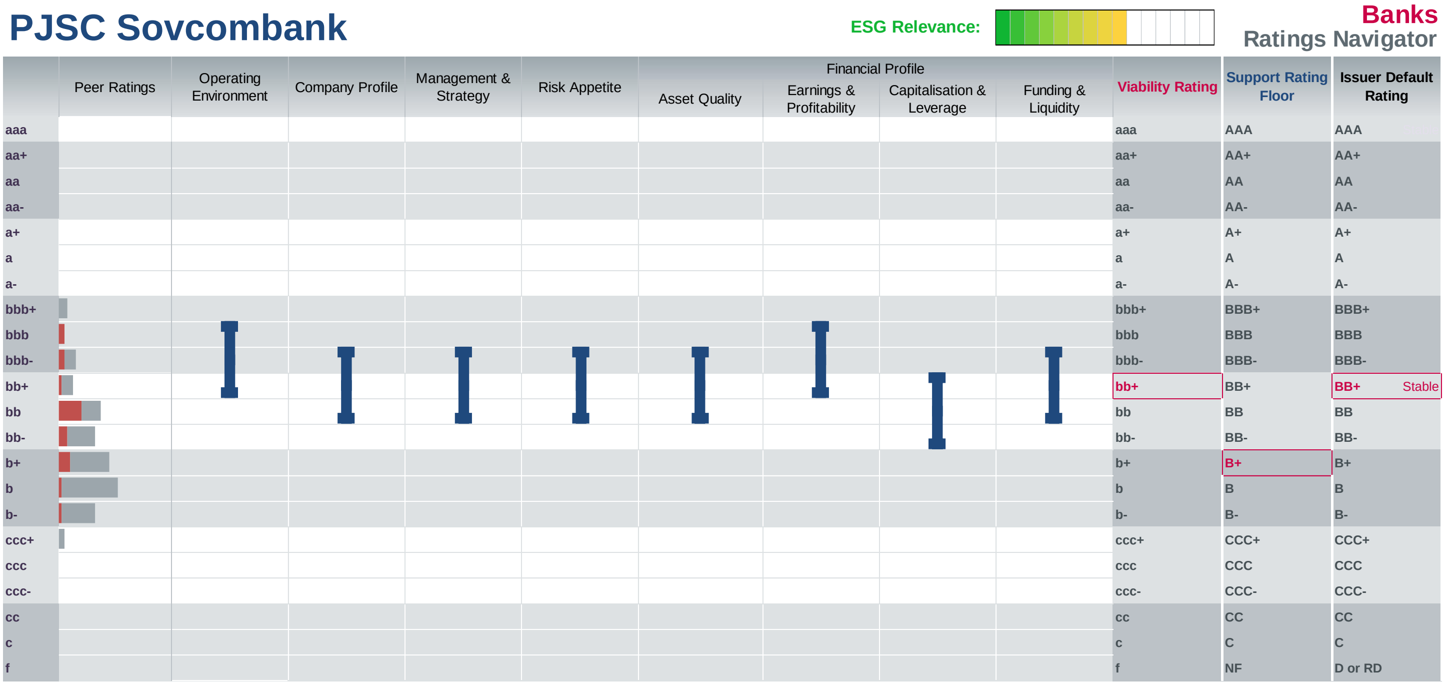
Ratings Navigator - Standalone Assessment



Sovereign Support Assessment

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

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

SCB's Support Rating Floor (SRF) of 'B+' and Support Rating of '4' reflect Fitch's view of a limited probability of state support from the Russian authorities if needed. This view is based on the record of state support to privately-owned banks in Russia, as evidenced by the bail-out of senior unsecured creditors at three medium-sized Russian private banks that failed in 2017, and the absence of any plans to introduce comprehensive senior creditor bail-in provisions into Russian legislation. However, the wide gap between SCB's 'B+' SRF and Russia's 'BBB' sovereign rating captures SCB's private ownership and only moderate systemic importance, as reflected in the bank's low 1.6% share in sector assets at end-2Q21.

Update on the Operating Environment

Stable Sector Outlook

In March 2021 Fitch revised the outlook on Russia's operating environment score to stable from negative. This reflected the fact that the pandemic-driven downturn in the Russian economy resulted in an only moderate weakening in domestic banks' asset quality and profitability in 2020. The Russian economy contracted by 3.1% in 2020 and we forecast 3.3% growth in 2021, which will support sector performance. Russian banks' metrics improved in 1Q21, driven by lower LICs and recoveries of provisions in some cases due to a stronger economic outlook.

The pressure on banks' credit profiles moderated in 1H21, as residual asset quality risks from the 2020 economic downturn were limited. In Fitch's view, LICs are likely to remain limited in 2H21, and most lenders will be able to record reasonable profits given their healthy pre-impairment profitability and adequate coverage of already crystallised asset quality problems.

Brief Company Summary - Key Latest Developments

Growing Scale of Operations; Regulatory D-SIB Status

At end-2Q21, SCB was the ninth-largest bank in Russia by total assets, although with a small 1.6% market share, reflecting the highly concentrated structure of the banking sector, which is dominated by state-owned banks. SCB operates in most Russian regions through 2,942 branches (mostly 'light' points of sale).

SCB was able to materially expand its franchise in recent years through rapid organic loan growth and several bank acquisitions. In 2H20 SCB was designated as a domestic systemically-important bank (D-SIB) by the Central Bank of Russia, and Fitch views this as a recognition of SCB's growing scale of operations and large deposit base.

In September 2021 Fitch has upgraded SCB's 'Company Profile' score to 'BB+' from 'BB' to capture SCB's recent franchise expansion and an extended record of business model stability. However, in Fitch's view, SCB's franchise in corporate business remains weak compared to that of higher-rated Russian banks (Sberbank, Alfa, large foreign-owned banks). Although SCB's access to, and record of banking with, Russian top-tier corporates, including state-owned companies, has arguably improved in recent years, the stability of SCB's relations with its larger clients is yet to be tested over time.

SCB's retail franchise is reasonable, in Fitch's view. In recent years SCB has been able to achieve considerable diversification of its retail business, with the emphasis on secured retail lending. At end-2Q21, car loans and mortgages amounted to over half of SCB's gross retail loans, while unsecured retail lending amounted to a moderate 1.3x CET1 capital.

Higher Risk Appetite Compared to Peers

Fitch scores SCB's 'Risk Appetite' at 'BB+'. This score captures SCB's consistently low impaired loan ratios and robust asset structure, as expressed by an only moderate share of net loan book in its total assets. At the same time, these strengths are balanced with SCB's fast asset growth, including though numerous and regular bank acquisitions. In particular, in 2Q21, SCB's organic loan growth was a high 31%, which is well above the sector average of 6%.

More evidence of SCB's higher risk appetite is the market risk stemming from SCB's large bond portfolio (3.2x CET1 capital at end-2Q21). Interest rate risks on these bonds are hedged, but most of the bonds are booked at fair value, which could lead to considerable volatility of earnings. For example, in 1Q20 SCB lost 10% of its equity due to losses on negative bond revaluation, although these losses were recovered later in 2020, along with the gradual recovery in bond prices.

The credit quality of SCB's non-loan exposures is generally reasonable, but SCB's exposure to 'B'-rated and unrated bonds (21% and 19%, respectively, of CET1 capital at end-2Q21) is more significant than at most peers. In addition, SCB has considerable appetite for taking risks to bond issuers from other countries, including from other CIS markets, Middle East and America. Although such exposures are well diversified by country, industry and single borrower, Fitch views such fixed-income positions as exotic for a Russian bank. SCB's peers typically do not take such risks on their balance sheets.

The Highest Bank VRs in Russia

Bank	Ownership	VR
Sberbank	State	bbb
Raiffeisen	Foreign	bbb
Rosbank	Foreign	bbb-
Alfa	Private	bbb-
SCB	**Private**	**bb+**

Source: Fitch Ratings

SCB's Business Segments, 2Q21

(%)	Assets	Revenue
Corporate	34.9	23.3
Retail	28.8	50.4
Treasury	36.3	26.3
Total	**100.0**	**100.0**

Source: Fitch Ratings, FRS accounts

SCB's Asset Structure

(%)	2Q21	2020
Cash, due from banks	13.5	13.9
Bonds	28.6	35.0
Net loan book, incl:	**53.8**	**45.7**
net retail loans	23.1	20.2
net corporate loans	28.6	23.3
bonds at amortised cost	1.9	4.4
Other assets	4.1	5.4
Total Assets	**100.0**	**100.0**

Source: Fitch Ratings, IFRS accounts

Fitch views SCB as a well-managed bank, and its execution has proved to be very strong to date. However, in Fitch's view the strategy of exploiting market opportunities, including acquisition-led growth and the fixed-income positions, is opportunistic. On the one hand it leads to greater business diversification and potentially stronger profitability, but on the other hand it may result in frequent business model changes and higher volatility of earnings. SCB's credit metrics, particularly in terms of asset quality and performance, compare well to those of higher-rated Russian banks but, at this stage, high risk appetite compared to peers, and certain franchise limitations, constrain the ratings at sub-investment grade range.

Acquisition of Orient Express Bank Neutral for the Ratings

In April 2021 SCB acquired Orient Express Bank (OEB) – a distressed Russian bank that is likely to merge into SCB by the end of the year. Fitch views OEB as a weaker bank due to some legacy asset quality issues (particularly in its corporate loan portfolio), but this acquisition is neutral for SCB's ratings. First, OEB's loan book (about 10% of SCB's gross loans) was deeply provisioned pre-acquisition and any residual legacy credit risks should be limited relative to SCB's equity and pre-impairment profit. Second, SCB has an impressive record of robust pricing strategy in its M&A transactions, and of strong management of operational risks attached to integration of acquired banks.

Private Ownership

SCB is majority-owned by a number of individuals through a holding company SovCo Capital Partners. The latter does not have any other investments apart from the bank and does not have third-party debt; accordingly, there is no double leverage at the holdco level. SCB also has a number of minority private shareholders, and a consortium of foreign institutional investors holds a 10.5% equity stake at SCB.

Financial Profile – Key Latest Developments

Low Impaired Loan Ratios; Reasonable Loan Quality

At end-2Q21 SCB's impaired loans (defined as Stage 3 and purchased or originated credit-impaired loans under IFRS9) equalled to 2.3% of gross loans and were 1.6x covered by total loan loss allowance. We believe that any residual risks stemming from the economic downturn of 2020 are only moderate and expect the impaired loan ratio to stay stable in the medium term. SCB's impaired loan ratio has been consistently low compared to higher-rated Russian banks, and also below the 'bbb' threshold. However, Fitch adjusts negatively for higher risk appetite (see above) and arrives at a 'BB+' asset quality score.

IFRS 9 Loan Quality, 2Q21

(% of gross loans)	Stage 3 + POCI loans	Reserves
Corporate loans	1.1	2.4
Retail loans, incl.:	**4.1**	**5.6**
Cash loans	6.7	10.8
Instalment cards	4.6	8.2
Mortgages	3.6	2.7
Car loans	1.7	2.6
Total loans	**2.3**	**3.7**

Source: Fitch Ratings, IFRS accounts

Fitch's reviewed SCB's 20 largest corporate loans (making up about half of the gross corporate loan portfolio). Most of them appear to be lower-risk exposures by domestic market standards, as these are extended to either top-tier Russian corporate borrowers, including many state-owned entities, or borrowers with reasonable financial performance and/or low leverage. Loans of higher credit risk included two real estate exposures (12% of capital at end-1Q21, although risks are mitigated by low loan-to-value ratios) and an exposure to quasi-sovereign business located in a low-rated CIS country (10% of capital at end-1Q21).

The quality of SCB's retail loans was stable through the pandemic. There was a moderate increase in impaired loans origination in unsecured retail lending (particularly in general purpose cash loans) in 1H20, but since then retail loan quality indicators have quickly returned to pre-pandemic levels. New loan issuance in 1H21 has also been broadly in line with pre-pandemic volumes, meaning that underwriting standards in unsecured retail lending and loan approval criteria have also returned to 'business as usual'.

Robust Profitability Is a Rating Strength

SCB has historically been one of the most profitable banks in Russia with its headline profitability ratios being significantly above the 'bbb' threshold.

SCB's performance benefits from wide interest margins, supported by decreasing funding costs in the broader banking sector in the past few years. The net interest margin is stable, at over 6.5% in the past few years, and this is 220bp above the sector average. Robust margins reflect SCB's considerable focus on retail lending and higher risk appetite in treasury business compared to peers. SCB's pre-impairment profit has been stable the past several years, amounting to a high 4% of average assets (or about 8% of average gross loans) and providing the bank with strong loss absorption capacity.

Profitability was stable in 2020 despite slightly higher LICs. SCB's annualised return on average equity (ROAE) was a high 32% in 1H21. In the medium term, a moderate pressure on the margins is likely, stemming from SCB's growing share of corporate lending (which generates lower margins) and robust competition in the retail segment in Russia, but Fitch believes that SCB's ROAE should be around 25% in the next few years.

SCB's Profitability Ratios[a]

(%)	1H21	2020	2019	2018
Interest income/avg. interest-earning assets	11.5	10.9	12.0	12.2
Interest expense/avg. interest-bearing liabilities	4.2	4.4	5.5	5.7
Net interest margin	**7.3**	**6.5**	**6.5**	**6.6**
Cost/income	44.0	39.5	46.6	57.9
LICs/avg. loans	1.3	3.0	1.6	2.3
Operating profit/risk-weighted assets	**3.5**	**3.6**	**3.6**	**1.8**
Net income/avg. equity	31.5	28.8	25.2	18.3
Net income/avg. assets	3.2	2.8	3.0	2.2
Net income (RUBbn)	26.2	40.3	30.0	17.5

[a] Annualised, where appropriate
Source: Fitch Ratings, IFRS accounts

Only Moderate Capital Ratios

At end-2Q21 SCB's Basel III CET1 capital ratio was a moderate 10.3%. SCB's risk-weighted asset (RWA) density, calculated as the ratio of RWAs divided by total assets, was 87%, which is a bit high in light of SCB's asset structure, and this could understate the capital ratio. However, even if adjusted for high RWA density, SCB's capital ratios are arguably lower than those of peers. We expect SCB's CET1 capital ratio to be around 10%-11% in the medium term, as any excess capital is likely to be consumed by organic asset growth and/or M&A transactions.

At end-2Q21, the headroom of regulatory capital ratios over statutory minimum (including capital conservation and systemic importance buffers) was thin, ranging from 50bp to 100bp, materially lower than at higher-rated peers. Fitch believes that the dip in regulatory capital ratios is temporary and caused by the acquisition of OEB, while in the medium term this headroom should improve to 100bp-150bp. This is still an only moderate uplift, in Fitch's view, particularly in light of SCB's rapid balance-sheet growth.

We have downgraded SCB's 'Capitalisation and Leverage' score to 'BB' from 'BB+' to capture an extended record of SCB's operating with only moderate capital levels. At the same time, SCB's capital is supported by strong internal capital generation capacity and the short-term nature of its assets, which could allow the bank to de-leverage quickly, if necessary. We believe that these factors mitigate the risks stemming from only moderate capital buffers.

Statutory Capital Ratios, 2Q21

	SCB	Min[a]	Headroom
Core tier 1 (N20.1)	**8.5**	**8.0**	**0.5**
Tier 1 (N20.2)	10.4	9.5	0.9
Total (N20.0)	12.5	11.5	1.0

[a] Including fully-loaded capital conservation and systemic importance buffers
Source: Fitch Ratings, Central Bank of Russia

Customer-Driven Funding; Comfortable Liquidity

At end-2Q21, SCB was predominantly funded by customer accounts (76% of total liabilities), half of them consisting of granular retail deposits. Deposit concentration is moderate compared to that of other Russian banks, with the ten largest corporate depositors amounting to 16% of total liabilities at end-2Q21. We view SCB's deposit base as stable, although SCB's cost of customer funding (3.8% in 2Q21) is slightly higher than at higher-rated peers. This is mostly due to a lower share of interest-free settlement accounts of corporates, and higher headline retail deposit rates at SCB than at Sberbank, Alfa and at foreign banks.

Liquidity is strong as expressed by a low 83% ratio of gross loans to deposits. Liquidity risks are also mitigated by SCB's fast loan turnover stemming from the generally short-term nature and reasonable credit quality of its loan book.

SCB's Funding Structure

(%)	2Q21	2020
Corporate deposits	39.0	40.6
Retail deposits	36.9	36.5
Direct repo	8.3	8.9
Due to banks	3.9	3.0
Debt securities	3.3	2.9
Subordinated debt	1.8	2.3
Other	6.7	5.8
Total liabilities	**100.0**	**100.0**

Source: Fitch Ratings, IFRS accounts

Summary Financials and Key Ratios

	30 Jun 21		31 Dec 20	31 Dec 19	31 Dec 18
	6 months - interim (USDm) Reviewed - unqualified	6 months - interim (RUBm) Reviewed - unqualified	Year end (RUBm) Audited - unqualified	Year end (RUBm) Audited - unqualified	Year end (RUBm) Audited - unqualified
Summary income statement					
Net interest and dividend income	710	51,650	79,812	55,070	47,479
Net fees and commissions	203	14,793	23,799	24,949	19,997
Other operating income	30	2,171	10,870	9,115	-6,633
Total operating income	943	68,614	114,481	89,134	60,843
Operating costs	415	30,173	45,186	41,436	35,085
Pre-impairment operating profit	529	38,441	69,295	47,698	25,758
Loan and other impairment charges	146	10,608	21,531	9,050	9,891
Operating profit	383	27,833	47,764	38,648	15,867
Other non-operating items (net)	56	4,099	783	-322	4,958
Tax	79	5,728	9,346	8,183	3,276
Net income	360	26,204	39,201	30,143	17,549
Other comprehensive income	-63	-4,574	1,076	27	209
Fitch comprehensive income	297	21,630	40,277	30,170	17,758
Summary balance sheet					
Assets					
Gross loans	14,246	1,036,008	743,390	608,129	558,424
- Of which impaired	332	24,148	20,307	16,921	11,994
Loan loss allowances	527	38,293	32,278	22,909	16,946
Net loans	13,719	997,715	711,112	585,220	541,478
Interbank	753	54,735	51,115	35,861	48,535
Derivatives	107	7,792	4,945	1,724	5,337
Other securities and earning assets	7,291	530,216	519,905	361,557	221,801
Total earning assets	21,870	1,590,458	1,287,077	984,362	817,151
Cash and due from banks	2,710	197,106	156,445	114,208	114,808
Other assets	916	66,608	39,838	36,624	35,445
Total assets	25,496	1,854,172	1,483,360	1,135,194	967,404
Liabilities					
Customer deposits	17,232	1,253,163	980,560	750,924	598,862
Interbank and other short-term funding	2,833	205,999	175,407	152,010	194,137
Other long-term funding	1,469	106,814	88,409	61,261	36,385
Trading liabilities and derivatives	194	14,111	21,105	6,638	6,847
Total funding	21,727	1,580,087	1,265,481	970,833	836,231
Other liabilities	924	67,179	29,590	25,277	17,137
Preference shares and hybrid capital	353	25,679	26,216	6,191	6,975
Total equity	2,492	181,227	162,073	132,893	107,061
Total liabilities and equity	25,496	1,854,172	1,483,360	1,135,194	967,404
Exchange rate		USD1 = RUB72.7234	USD1 = RUB73.8757	USD1 = RUB61.9057	USD1 = RUB69.5218

Source: Fitch Ratings, Fitch Solutions, SCB

Summary Financials and Key Ratios

	30 Jun 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.5	3.6	3.6	1.8
Net interest income/average earning assets	7.3	6.5	6.5	6.6
Non-interest expense/gross revenue	44.0	39.5	46.6	57.9
Net income/average equity	31.5	28.8	25.2	18.3
Asset quality				
Impaired loans ratio	2.3	2.7	2.8	2.2
Growth in gross loans	39.4	22.2	8.9	102.9
Loan loss allowances/impaired loans	158.6	159.0	135.4	141.3
Loan impairment charges/average gross loans	2.5	3.0	1.6	2.3
Capitalisation				
Common equity Tier 1 ratio	10.3	11.5	11.7	11.5
Risk-weighted assets/total assets	87.1	90.7	93.6	89.2
Tangible common equity/tangible assets	9.4	10.6	11.1	10.4
Net impaired loans/common equity Tier 1	-8.6	-7.8	n.a.	n.a.
Funding and liquidity				
Loans/customer deposits	82.7	75.8	81.0	93.3
Customer deposits/funding	78.7	77.2	77.4	71.6

Source: Fitch Ratings, Fitch Solutions, SCB

Environmental, Social and Governance Considerations

FitchRatings **PJSC Sovcombank**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

PJSC Sovcombank has 5 ESG potential rating drivers

- PJSC Sovcombank 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
not a rating driver	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 Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

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

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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