FitchRatings

Banks
Retail & Consumer Banks
United Kingdom

The Co-operative Bank p.l.c.

Key Rating Drivers

Compliant With Regulatory Buffers: The Co-operative Bank p.l.c.'s Viability Rating (VR) is two notches below the 'bb+' implied VR because its business model, which Fitch Ratings believes is vulnerable to competitive pressures, has a strong impact on its VR. The VR also reflects the bank's low-risk credit exposures, healthy asset quality, strengthened profitability, improved capitalisation, which now meets regulatory capital requirements, and reasonable funding and liquidity.

Resilient Franchise: The bank's ethical focus has helped it to attract and retain customers, building resilience in its franchise. However, the bank's limited scale, low market shares and lack of diversification weigh on its business model. Structural profitability has improved with effective cost management following the completion of the restructuring process in 2021, but costs remain relatively high compared with peers.

Mortgage Lending Dominates Assets: The Co-operative Bank has tightened its underwriting standards and risk controls, which are in line with other UK mortgage lenders primarily writing low-risk residential and buy-to-let mortgages with a small share of unsecured retail and higher loan-to-value (LTV) lending. We expect mortgage lending growth to be muted in 2023, given higher interest rates and housing market uncertainty. The average mortgage LTV in the portfolio (end-2022: 53.5%) provides a buffer against a moderate house price correction.

Healthy Asset Quality: Asset quality has remained healthy, with low arrears and moderate mortgage loan-to-values (LTVs). The bank reported an impaired loan ratio of 0.4% at end-2022 (or 0.6% when including purchased originated credit impaired loans). We expect the bank's impaired loans ratio to rise to around 0.5% of gross loans by end-2024, mainly due to higher interest rates, the expected recession in 2023, and affordability pressures. Nevertheless, the low-risk nature of its loans and conservative underwriting standards mitigates risks.

Improved Structural Profitability: Profitability has continued to improve, with operating profit/risk-weighted assets (RWAs) of 2.8% in 2022 (2021: 0.7%), supported by wider mortgage margins and a modest pass-through of interest rate increases to savers. However, asset margins remain vulnerable to competition and a softer housing market. Revenues are also sensitive to the bank's capacity to grow business and to rising funding costs. Rising interest rates and reduced costs should underpin profitability.

Improved Capital Position: The common equity Tier 1 (CET1) ratio (end-2022: 19.8%) reflects the low risk-weights assigned to mortgage loans under the bank's internal ratings-based approach. The bank is now fully compliant with regulatory requirements, and had resources in excess of end-state minimum requirements for own funds and eligible liabilities (MREL). The leverage ratio (end-2022: 4.0%) is gradually improving and we expect it to strengthen further, putting the bank in a better position to gradually expand its balance sheet.

Resilient Customer Funding: The bank is predominantly funded by resilient core retail deposits. The limited access to wholesale markets largely consists of MREL-eligible debt, Tier 2 debt and the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME). Liquidity is healthy, with large holdings of cash at the Bank of England boosted by TFSME drawings, which raised the liquidity coverage ratio to 265% at end-2022.

The Short-Term IDR of 'B' maps to the only available option for a Long-Term IDR of 'BB' under Fitch's rating criteria.

Rating Uplift to Opco: The Co-operative Bank's Long-Term IDR is one notch above its VR because we believe that there are sufficient resolution funds issued by The Co-operative Bank Finance plc, the bank's intermediate holding company, which afford additional protection to the bank's external senior creditors, in case of its failure.

Ratings

Foreign Currency

Long-Term IDR	BB
Short-Term IDR	B
Viability Rating	bb-
Government Support Rating	ns

Sovereign Risk (United Kingdom)

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

Outlooks

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

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Upgrades The Co-operative Bank to 'BB'; Outlook Stable (February 2023)

Fitch Affirms United Kingdom at 'AA-'; Outlook Negative (December 2022)

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Amendment

This is a correction of the report originally published on 17 March 2023. It corrects the level of the implied Viability Rating to 'bb+' from 'bb', as was originally stated in the 'Compliant with Regulatory Buffers' key rating driver paragraph and the Ratings Navigator. All other content is as of the original publication date.

Rating Sensitivities

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

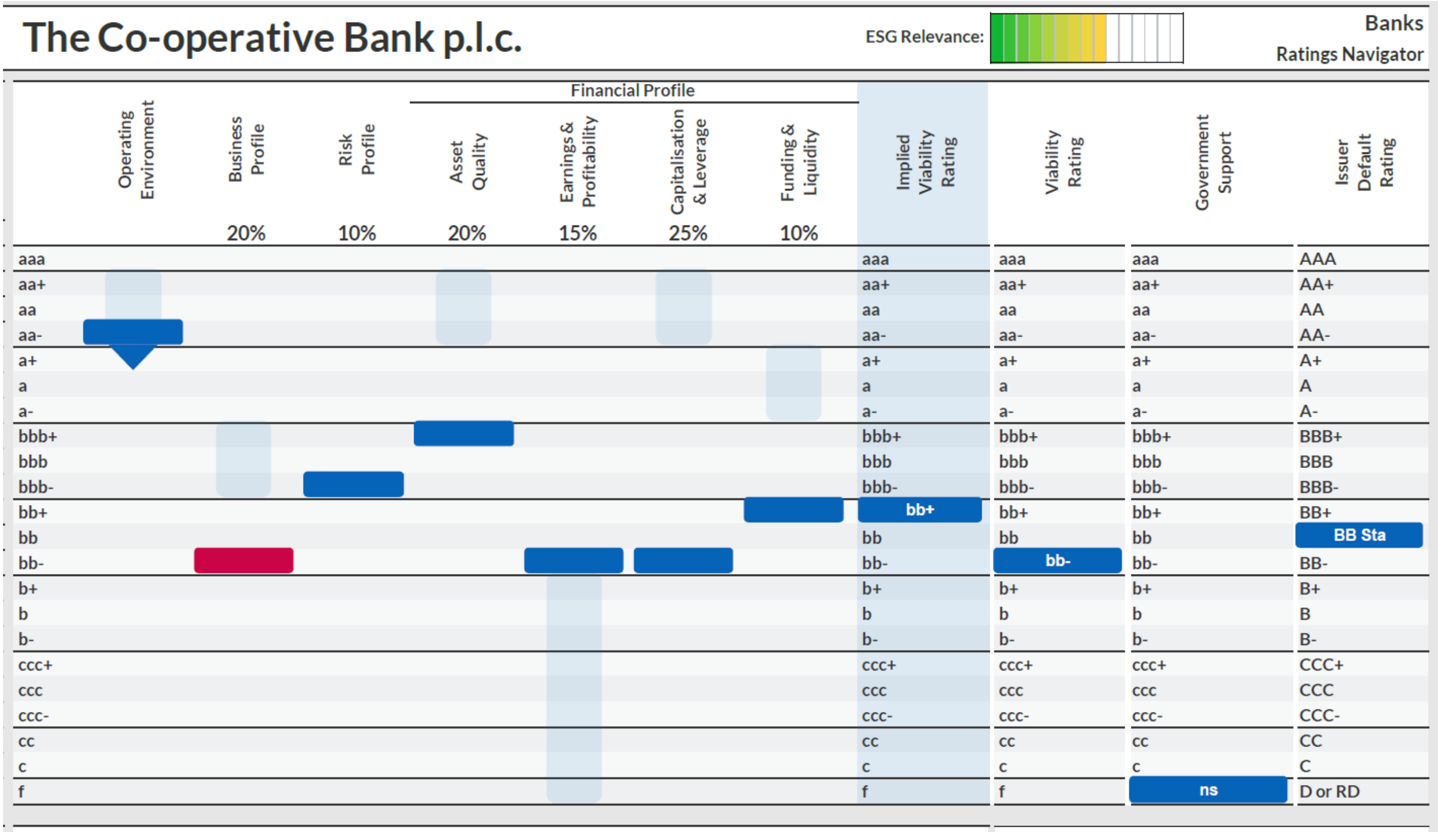
The ratings could be downgraded if The Co-operative Bank recorded weaker-than-expected profitability or faster-than-planned growth that eroded buffers against CET1 and leverage ratio requirements, with no clear actions to restore them.

The Long-Term IDR is also sensitive to the bank being able to meet its end-state regulatory resolution buffer requirements, which includes qualifying junior debt and internal subordinated debt. The Long-Term IDR could be downgraded to the same level as the VR if the bank is no longer required or able to meet end state MREL regulatory requirements.

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

An upgrade would require the bank to sustain a record of improved structural profitability, and to continue to demonstrate its ability to generate sufficient capital while maintaining healthy buffers above minimum capital and leverage requirements. In turn, stronger capital buffers that supported the bank's business growth, competitiveness and scale could support our business profile assessment and the bank's VR.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The Viability Rating has been assigned below the implied Viability Rating due to the following adjustment reason: Business Profile (negative).

The operating environment score of 'aa-' is at the lower end of the implied range because it is constrained by the UK's sovereign rating of 'AA-'/Negative (negative).

The business profile score of 'bb-' has been assigned below the 'bbb' category implied score due to the following adjustment reasons: business model (negative), market position (negative).

The asset quality score of 'bbb+' has been assigned below the 'aa' category implied score due to the following adjustment reason: concentration (negative).

The earnings and profitability score of 'bb-' has been assigned above the 'b' category implied score due to the following adjustment reason: historical and future metrics (positive).

The capitalisation and leverage score of 'bb-' has been assigned below the 'aa' category implied score due to the following adjustment reasons: Leverage and risk-weight calculation (negative), capital flexibility and ordinary support (negative).

The funding and liquidity score of 'bb+' has been assigned below the 'a' category implied score due to the following adjustment reason: non-deposit funding (negative).

Company Summary and Key Qualitative Factors

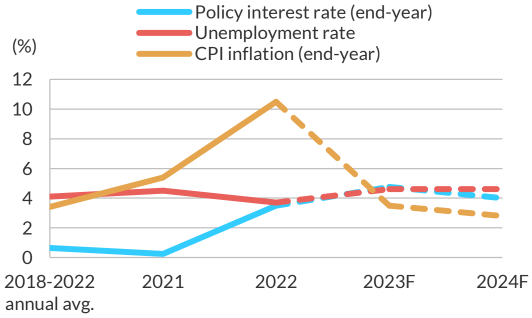
Operating Environment

Recession and Macro Uncertainty Increase Risks

The UK economy narrowly avoided a technical recession in 2022 by stagnating in 4Q22 after a 0.2% contraction in 3Q22. Fitch has revised its expectations for the UK to face a sizeable recession in 2023, and increased the UK's 2023 GDP growth forecast to negative 0.7% in the March 2023 Global Economic Outlook (GEO) from a negative 1.2% forecast in the December GEO. A recession is still on the cards for 2023 as the full impact of the hit to real incomes and policy tightening becomes clear, but the UK economy remained fairly resilient at the start of 2023. The negative outlooks on the UK banks' operating environment score mirrors the Outlook on the UK sovereign rating (AA-/Negative) and we expect the rating to continue to act as a constraint on our operating environment score.

Rising interest rates have provided an uplift to major UK banks' earnings given material NIM widening thanks to their leading low-cost, current account franchises, which have kept pass-through rates low to date. However, Fitch expects an increase in the pass-through rate to customer deposits in 2023, with higher funding costs resulting in a lower uplift to the NIM into the medium term. Furthermore, weaker economic growth and affordability pressures for consumers will likely lead to asset quality deterioration, although impairment charges should remain manageable given a high share of secured loan portfolios (largely mortgages) and sound underwriting standards.

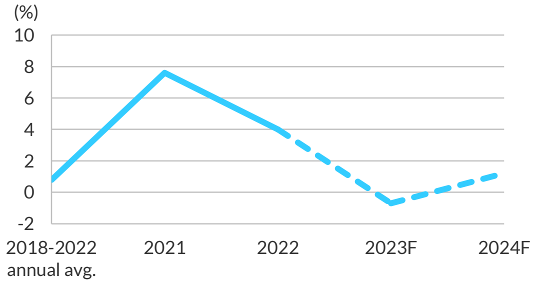
United Kingdom - Macroeconomic Forecasts



Source: Fitch Ratings

United Kingdom - GDP Growth

December Global Economic Outlook; GDP growth

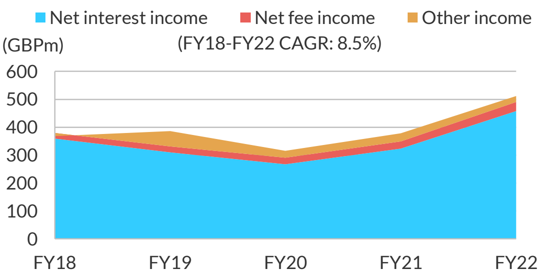


Source: Fitch Ratings

Business Profile

The bank splits its business into four segments. The first, retail, is based on a small and much reduced branch presence, supported by telephone and online services, offering current accounts, savings, mortgages, personal loans and credit cards. SME banking is mainly liabilities-driven banking services for small and medium-sized businesses, charities and social enterprises. The treasury manages the bank's portfolio of liquid assets, interest rate risk and wholesale funding to meet liquidity and capital requirements; and, lastly, legacy and unallocated, is tasked with gradually reducing portfolios outside the bank's risk appetite and unallocated items.

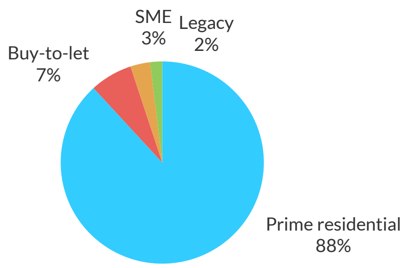
Revenue Breakdown



CAGR: compound annual growth rate
[a] Annualised
Source: Fitch Ratings, Co-op Bank

Loan Book Overview

End-2022



Source: Fitch Ratings, Co-op Bank

Risk Profile

Mortgage applicant quality is monitored closely, defined in terms of creditworthiness, LTV and loan/income (LTI) ratios and affordability profile. Interest-only (IO) loans accounted for 8.8% (GBP1.7 billion) of the mortgage book at end-2022 and comprised largely of BTL loans – no new owner-occupier IO loans were extended, although there are plans to re-enter this market in 2023. Of the IO loans, about 90% of balances had an LTV of less than 60% (65% have an LTV of less than 50%).

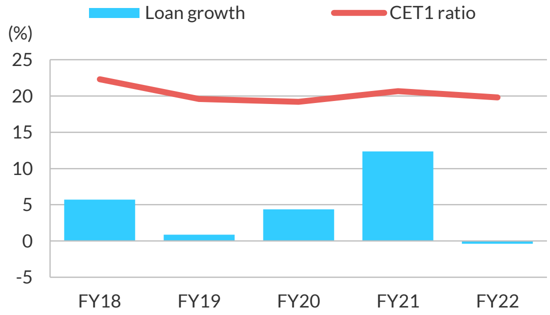
The bank has restricted all mortgage loans with an LTV above 95%. Capital repayment loans with LTVs over 80% still only accounted for around 6% of the total stock at end-2022 (and were mostly between 80% and 90%).

Risks to areas where real estate prices are more vulnerable to corrections, such as London and the south-east of England (38% of the mortgage book), are controlled by keeping LTVs lower than average.

The bank had reduced its unsecured retail lending (credit cards and agreed overdrafts), whilst unsecured personal loans haven't been offered since 2018. Credit cards have only been given to existing customers so far but the bank is planning to relaunch its new-to-bank card offering. The majority of SME lending stock is government-guaranteed loans (CBILS and Bounce-Back loans).

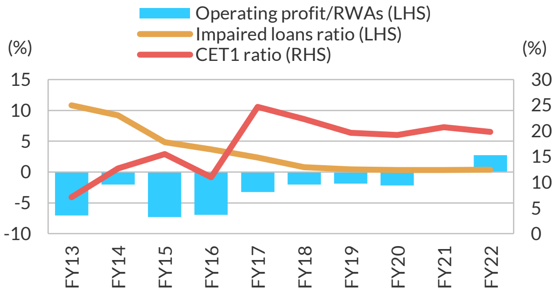
Loan growth was particularly strong in 2021 (12.4%), as the bank took advantage of market opportunities to lock in higher-spread mortgages for two to five years. It also increased its SME lending backed by government guarantees. Loan growth in 2022 was broadly flat as the bank sought to preserve asset margins, but the mortgage pipeline has returned to more normalised, pre-pandemic levels (2022: GBP1.7 billion; 2021: GBP1.2 billion).

Loan Growth



Source: Fitch Ratings, Co-op Bank

Performance Through the Cycle



[a] Annualised
Source: Fitch Ratings, Co-op Bank

Financial Profile

Asset Quality

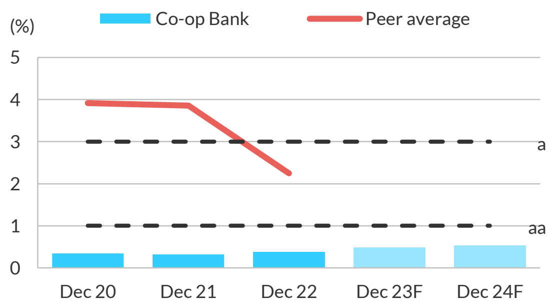
Credit risk primarily arises from retail lending (GBP19.8 billion), which formed 95% of gross loans at end-2022 and is primarily in low risk, low LTV mortgages. The impaired loans ratio remained low at 0.4% at end-2022 (end-2021: 0.3%). The share of core mortgage accounts in arrears for over three months have remained stable at 0.1% at end-2022 (end-2021: 0.1%). Stage 3 coverage, when including POCI loans, was a low 26% at end-2022 reflecting the largely secured nature of the loan book. The stock of Stage 2 loans rose materially to 16.2% at end-2022 (end-2021: 4.1%), due to models and quantitative thresholds and reflected a deteriorating economic outlook and affordability pressures.

SME loans accounted for 2% of gross loans at end-2022. The asset quality of the SME portfolio has remained stable despite the end of the government support schemes. The Business Bounce-Back Loan Scheme (BBLS) performance has been in line with expectations, with 20% of eligible customers currently using a 'Pay As You Grow' or other forbearance arrangement to support cash flow. The arrears levels are in line with the rest of the book at low levels.

Legacy loans formed 3% of gross loans at end-2022. The risk from these loans is reducing as they are now either low-risk but low-yielding, or have seasoned over several years in the case of loans to borrowers with weaker profiles. Nonetheless, 2% of legacy loans were classified as Stage 3, with a further 1% as POCI.

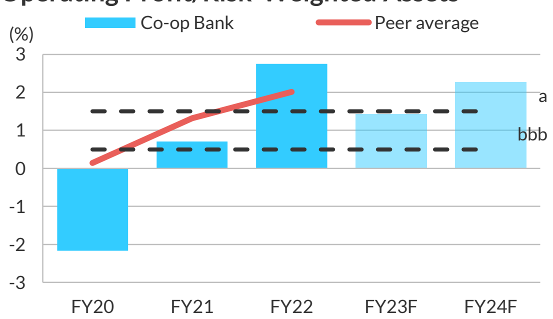
Non-loan assets at end-2022 mainly consisted of cash (GBP5.3 billion), an investment securities portfolio (GBP943 million) and a large (GBP160 million) net retirement benefit asset. The investment securities portfolio mainly comprised highly rated government and public-sector bonds, and residential mortgage-backed securities.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Co-op Bank

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Co-op Bank

Earnings and Profitability

The Co-Operative Bank reported its first profit in 2021 since 2011: in the nine years to end-2020, net losses totalled just over GBP3 billion. Net interest income has been supported by rising rates and increased by 41% to GBP458 million in 2022 (2021: GBP324 million). In 2021 the bank delivered on its three-year turnaround plan to cut costs by closing branches, reducing staff numbers and lowering third-party outsourcing, and continues to focus on simplification. The resultant improvement in structural profitability has reduced the cost-to-income ratio to 73% in 2022, although this is still high relative to peers.

The transformation of its mortgage and savings platforms, and bringing mortgage servicing operations inhouse from Capita, should reduce costs further in the long run. However, progress has been slower than planned and is expected to drive a short-term increase in project costs. The mortgage platform integration is now expected to be completed in 2023 and the savings platform has already launched a new savings product on the bank's mainframe for the first time in seven years. The bank's net impairment charge of GBP6.4 million in 2022 (1H22: GBP2.8 million credit) reflects adjustments for affordability across secured and unsecured portfolios, whilst underlying asset quality remains resilient, with a low level of defaults across the loan portfolio.

Capital and Leverage

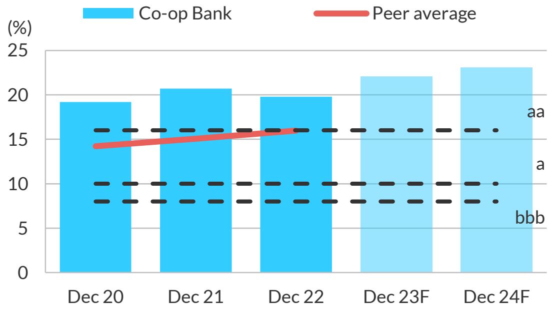
The Co-operative Bank's CET1 ratio fell to 19.8% at end-2022 (end-2021: 20.7%) because of regulatory changes to its risk-weights, in line with UK peers. The CET1 ratio remains well above the regulatory minimum of 12.3% (which is down from 12.8% at end-2021), and improved structural profitability should continue to support the capital position.

The bank's total capital ratio was 23.8% at end-2022, which included GBP194 million of Tier 2 debt. We expect RWAs to be more stable going forward given add-ons introduced in January 2022 in anticipation of hybrid models being introduced. Its leverage ratio (calculated as per the PRA definition) of 4.0% at end-2022 has remained stable since the end of 2021 despite the full deduction of software intangibles, but remains low compared to its UK peers and limits growth. The bank's ability to issue additional Tier 1 instruments is untested.

The bank's total capital requirement (TCR; end-2022:) was 13.1%) comprises a minimum CET1 ratio requirement of 9.8% and a maximum 3.3% of Tier 2 resources. In addition, it had additional known buffer requirements in the form of the capital conservation buffer (CCOB) of 2.5% and UK countercyclical buffer (CCYB) of 1% of risk-weighted assets respectively, giving rise to a TCR of 16.6% and a CET1 capital requirement of 13.3%.

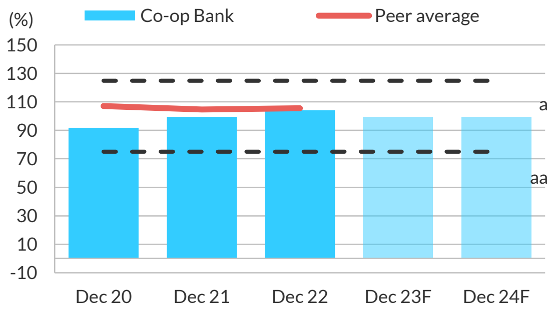
The bank meets interim MREL requirements with GBP1.6 billion of MREL resources as at end-2022 with the successful GBP250 million MREL issuance under the bank's inaugural Green, Social and Sustainability Framework, which was completed in April 2022. Based on an implied end-state requirement (using the end-2022 reported balance sheet) of 29.6%, including CRDIV buffers, there are surplus MREL resources.

CET1 Ratio



Source: Fitch Ratings, Co-op Bank

Gross Loans/Customer Deposits



Source: Fitch Ratings, Co-op Bank

Funding and Liquidity

The Co-operative Bank is primarily funded by deposits (77% of funding at end-2022), most of which are retail and have proved to be stable, but also by some SME deposits. Wholesale funding includes the TFSME, the parent's MREL-eligible debt (GBP453 million) and GBP194 million of Tier 2 debt. The bank also had a small amount of RMBS and repos outstanding at year-end. Repo funding has reduced due to market disruption, which has negatively affected gilt values.

TFSME usage is high at GBP5.2 billion at end-2022, accounting for 20% of total funding, and will need to be refinanced by 2024/2025, although it is stable and its maturity can be staggered over three years to reduce refinancing costs. Asset encumbrance rose towards the higher end of its peers and was 30% at end-2022 (27% at end-2021) and mainly reflects TFSME funding.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Light-blue columns represent Fitch's forecasts. Peer average includes Investec Bank plc (VR: bbb+), Metro Bank Plc (b), Tesco Personal Finance Group PLC (WD), OSB GROUP PLC (bbb-), Paragon Banking Group PLC (bbb+), Caixa Economica Montepio Geral, Caixa economica bancaria, S.A. (b), Banca Monte dei Paschi di Siena S.p.A. (b+).

Financial year end of Investec Bank plc is 31 March. Financial year end of Tesco Personal Finance Group PLC is 28 February. Financial year-end of Paragon Banking Group PLC is 30 September. Latest average uses FY21 data for Tesco Personal Finance Group PLC; FY22 data for Paragon Banking Group PLC; 9M22 data for Caixa Economica Montepio Geral, Caixa economica bancaria, S.A., Banca Monte dei Paschi di Siena S.p.A.

Financials

Financial Statements

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	Year end (USDm) Audited - unqualified	Year end (GBPm) Audited - unqualified	Year end (GBPm) Audited - unqualified	Year end (GBPm) Audited - unqualified	Year end (GBPm) Audited - unqualified
Summary income statement					
Net interest and dividend income	553	458.3	323.9	266.9	310.0
Net fees and commissions	38	31.8	25.2	23.5	20.7
Other operating income	26	21.6	29.2	24.9	55.9
Total operating income	618	511.7	378.3	315.3	386.6
Operating costs	450	372.7	346.1	395.4	478.7
Pre-impairment operating profit	168	139.0	32.2	-80.1	-92.1
Loan and other impairment charges	8	6.4	1.1	21.6	-2.5
Operating profit	160	132.6	31.1	-101.7	-89.6
Other non-operating items (net)	n.a.	n.a.	n.a.	-2.0	-62.5
Tax	133	110.5	-166.2	-8.0	0.9
Net income	27	22.1	197.3	-95.7	-153.0
Other comprehensive income	-573	-475.0	80.2	-41.8	14.8
Fitch comprehensive income	-547	-452.9	277.5	-137.5	-138.2
Summary balance sheet					
Assets					
Gross loans	25,297	20,962.2	21,039.5	18,725.4	17,945.1
- Of which impaired	97	80.3	67.4	62.9	79.5
Loan loss allowances	49	40.3	37.4	42.9	26.7
Net loans	25,249	20,921.9	21,002.1	18,682.5	17,918.4
Interbank	467	387.1	191.5	536.2	474.3
Derivatives	108	89.4	158.0	324.0	285.9
Other securities and earning assets	1,154	955.9	1,226.1	1,172.5	1,651.9
Total earning assets	26,977	22,354.3	22,577.7	20,715.2	20,330.5
Cash and due from banks	6,360	5,270.4	5,696.9	3,877.8	2,153.5
Other assets	613	508.1	1,048.7	1,006.5	951.5
Total assets	33,951	28,132.8	29,323.3	25,599.5	23,435.5
Liabilities					
Customer deposits	24,266	20,107.4	21,135.9	20,365.8	18,996.9
Interbank and other short-term funding	583	483.4	327.6	2,066.4	1,143.7
Other long-term funding	7,276	6,028.8	5,805.4	1,137.0	1,071.7
Trading liabilities and derivatives	83	68.9	140.7	340.1	288.0
Total funding and derivatives	32,208	26,688.5	27,409.6	23,909.3	21,500.3
Other liabilities	175	145.3	161.8	215.8	323.4
Total equity	1,568	1,299.0	1,751.9	1,474.4	1,611.8
Total liabilities and equity	33,951	28,132.8	29,323.3	25,599.5	23,435.5
Exchange rate		USD1 = GBP0.828638	USD1 = GBP0.74438	USD1 = GBP0.745156	USD1 = GBP0.76211

Source: Fitch Ratings, Fitch Solutions

Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.8	0.7	-2.2	-1.9
Net interest income/average earning assets	2.0	1.5	1.3	1.5
Non-interest expense/gross revenue	72.8	91.5	125.4	123.8
Net income/average equity	1.4	12.2	-6.1	-9.0
Asset quality				
Impaired loans ratio	0.4	0.3	0.3	0.4
Growth in gross loans	-0.4	12.4	4.4	0.9
Loan loss allowances/impaired loans	50.2	55.5	68.2	33.6
Loan impairment charges/average gross loans	0.0	0.0	0.1	0.0
Capitalisation				
Common equity Tier 1 ratio	19.8	20.7	19.2	19.6
Tangible common equity/tangible assets	3.7	5.1	5.5	6.4
Basel leverage ratio	3.3	3.1	3.4	3.9
Net impaired loans/common equity Tier 1	4.2	3.3	2.2	5.6
Funding and liquidity				
Gross loans/customer deposits	104.3	99.5	92.0	94.5
Liquidity coverage ratio	265.3	241.8	193.4	173.7
Customer deposits/total non-equity funding	75.5	77.5	86.4	89.6
Net stable funding ratio	136.3	141.4	138.2	139.1

Source: Fitch Ratings, Fitch Solutions

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	A or A-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA-/Negative
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

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

No Support: The Government Support Rating (GSR) reflects Fitch's view that senior creditors cannot rely on extraordinary support from the UK authorities if The Co-operative Bank becomes non-viable, in light of the legislation in place that is likely to require senior creditors to participate in losses for resolving the bank.

Environmental, Social and Governance Considerations

FitchRatings **The Co-operative Bank p.l.c.** Banks Ratings Navigator

Credit-Relevant ESG Derivation

The Co-operative Bank p.l.c. has 5 ESG potential rating drivers

- The Co-operative Bank p.l.c. 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	Business Profile (incl. Management & governance); Risk Profile; 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	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	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.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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