FitchRatings

Banks
Universal Commercial Banks
Russia

Joint Stock Company Alfa-Bank

Key Rating Drivers

Ratings Upgraded: The recent upgrade of the Long-Term Issuer Default Rating (IDR) of Joint Stock Company Alfa-Bank (Alfa) to 'BBB-' captured the stabilisation of the operating environment in Russia. Fitch Ratings expects the residual pressure on Russian banks stemming from the economic downturn and the pandemic to be only moderate. Alfa's ratings were already close to the 'BBB-' level before the pandemic. Fitch believes Alfa's stable asset-quality metrics and healthy result in 2020 imply strong execution through the credit cycle.

Strong Franchise, Stable Metrics: Alfa's ratings are driven by its intrinsic credit strength, as expressed by its Viability Rating (VR). The ratings reflect Alfa's strong domestic franchise as the fourth-largest bank in Russia, and its stable financial profile. Alfa's asset quality and performance in 2020 was largely consistent with pre-pandemic years.

Resilient Loan Quality: At end-2020, Alfa's headline impaired loan ratio was a low 4.1%, down 10bp yoy. In 2020 Alfa's loan impairment charges (LICs) were a low 1.7% of average gross loans (2019: 1.9%). These were well covered by Alfa's pre-impairment profit, which exceeds 5% of average loans, allowing Alfa to post a healthy 12% return on equity (ROE). In 2021, we expect Alfa's LICs to be around 2%, and its return on average equity to stay in double-digits.

Risks in Retail Only Moderate: Alfa's compound annual growth rate in retail lending in 2017-2020 was a high 48% in rouble terms, with an emphasis on unsecured lending, giving rise to seasoning risks. However, at end-2020, Alfa's unsecured retail portfolio was still only 20% of gross loans or 1.1x Fitch Core Capital (FCC), which we view as moderate exposure. In addition, we do not expect this exposure to materially increase in the medium term, as retail loan growth in 2021-2022 is likely to be focused primarily on lower-risk mortgages.

Reasonable Capital Ratios: Alfa's capital position is adequate, as expressed by its 14.7% Fitch Core Capital ratio at end-2020, but regulatory capital ratios are lower due to higher risk-weights. In 2020 Alfa's regulatory capital ratios had a comfortable 150-200bp headroom over the statutory minimums, including buffers, but in the past this headroom decreased to below 100bp in some reporting periods. In Fitch's view, this is an indication of tight regulatory capital management compared with some peers.

Strong Funding; Ample Liquidity: Alfa is mainly funded with customer deposits (82% of total liabilities at end-2020) and its funding profile benefits from a high share of on-demand current accounts, resulting in significant stability and granularity of the funding base. Alfa's liquidity buffer exceeded USD15 billion or a high 28% of total liabilities at end-2020.

Rating Sensitivities

Sovereign Rating: Fitch is unlikely to rate Alfa at the same level as Russia's sovereign Long-Term IDR (currently 'BBB'). Accordingly, an upgrade of Alfa's ratings would require an upgrade of the sovereign ratings and an improvement in the operating environment for banks in Russia. If Russia's sovereign rating is downgraded, Fitch will likely downgrade Alfa.

Stable Asset Quality; Stronger Capital: In addition to the sovereign upgrade, a further upgrade of Alfa would require an extended record of stable asset quality and performance, and probably higher headroom for regulatory capital ratios over the statutory minimums, including buffers. Conversely, Alfa could be downgraded if there was a material asset quality weakening, with LICs exceeding 5% of average gross loans in two-to-three consecutive semi-annual reporting periods, resulting in negative or close to negative net income.

Ratings

Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
Local Currency	
Long-Term IDR	BBB-
Viability Rating	bbb-
Support Rating	3
Support Rating Floor	BB-
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

Fitch Ratings Publishes 2M20 Russian Banks Datawatch (April 2021)

Russia's Sovereign Rating Resilient to Latest US Sanctions (April 2021)

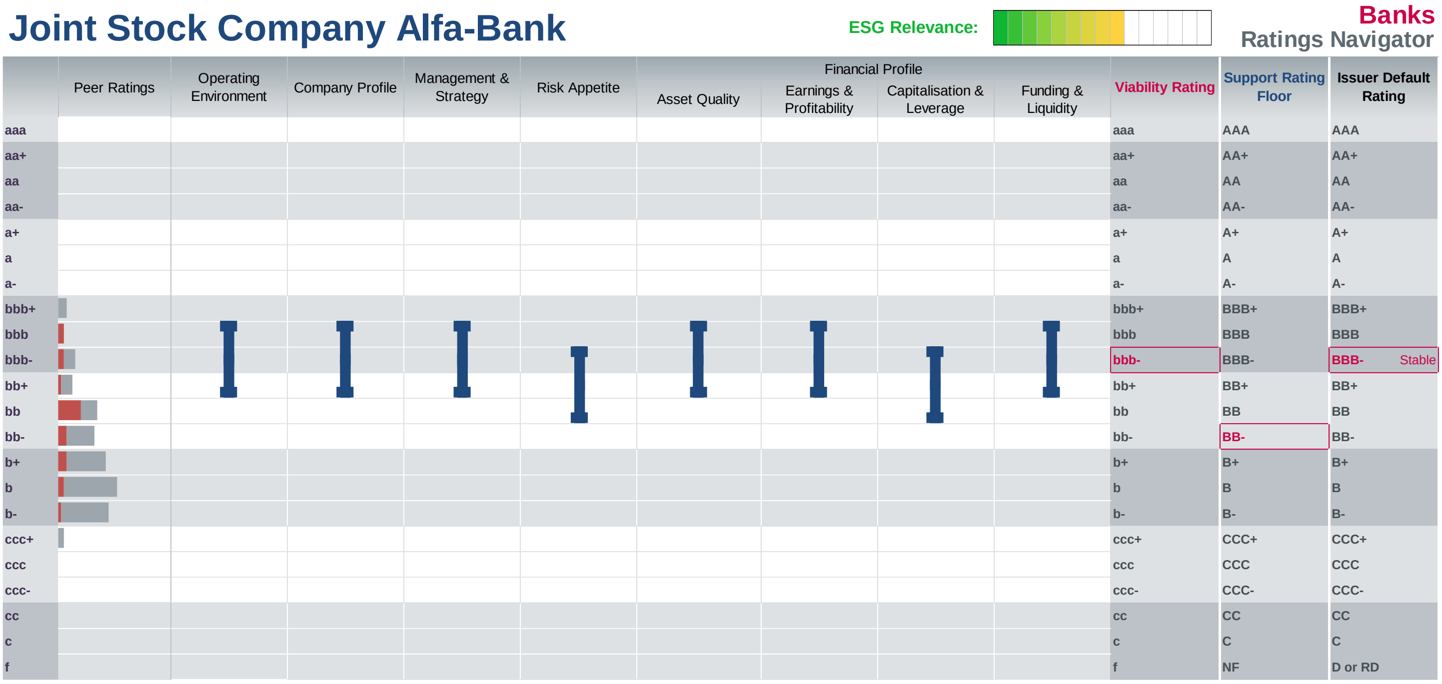
Fitch Affirms Russia at 'BBB'; Outlook Stable (February 2021)

Analysts

Vasiliev, Dmitri
+7 495 956 5576
dmitri.vasiliev@fitchratings.com

Beketov, Artem
+7 495 956 9932
artem.beketov@fitchratings.com

Ratings Navigator



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			BBB-
Support Rating Floor:			**BB-**
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

Alfa's Support Rating Floor (SRF) of 'BB-' and its Support Rating of '3' reflect Fitch's view of a moderate probability of 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 legislation in Russia. Alfa's 'BB-' SRF also captures the bank's moderate systemic importance as the fourth-largest bank in Russia with a 4% market share and its sizable (in absolute terms) deposit base.

Operating Environment Update

Stable Sector Outlook for 2021; Manageable Asset Quality Pressure

In April 2021 Fitch revised the outlook on Russian banking sector to Stable from Negative. In our view, the negative implications from the pandemic on the Russian economy resulted in an only moderate weakening in Russian banks' asset quality and profitability in 2020. The sector average cost of risk (impairment charges to average gross loans, excluding the CBR's bad bank) increased to 3.1% in 2020 from 2.4% in 2019. Loan impairment charges are likely to stay under moderate pressure in 2021, but most banks will be able to absorb higher credit costs without eating into capital, given their reasonable pre-impairment profit cushions. We believe the sector pre-impairment will exceed 5% of average gross loans in 2021 (2020: 5.4%).

The sector headline impaired loans ratio was stable in 2020, but we estimate that the banks restructured about 12% of gross loans due to the pandemic in the period from 20 March 2020 to 1 February 2021, including 5% of retail, 17% of SME, and 15% of corporate loans. We expect banks to continue restructuring loans in 2021, and some rescheduled exposures may become impaired, keeping the sector average cost-of-risk ratio above pre-pandemic levels.

Fitch expects Russia's real GDP growth to recover to 3.3% in 2021 after a 3.1% contraction in 2020. A recovering economy and a moderate revival in business activity should support banks' growth and revenue prospects. Fitch believes that sector loan growth in 2021 should be close to banks' internal capital generation (calculated as net income less dividends divided by average equity), resulting in stable capital ratios.

Market Shares

(in %)	End-2020
Corporate loans	4.7
Retail loans	4.3
Credit cards	11.4
Corporate deposits	4.3
Retail deposits	4.4

Source: Fitch Ratings, Alfa

Brief Company Summary - Key Latest Developments

The Largest Privately Owned Bank in Russia

At end-2020, Alfa was the fourth-largest bank in Russia, although its market shares are only moderate, reflecting the highly concentrated nature of the Russian banking sector, which is dominated by state-owned banks. We view Alfa’s franchise as strong due to its access to top-tier Russian corporates and robust deposit franchise. The latter is reflected in a significant share of current/on-demand accounts in Alfa’s liabilities (54% at end-2020), resulting in a granular funding base compared to peers, and translating into low customer funding costs, which are in line with Sberbank and just marginally higher than some of the foreign banks. Alfa’s business model is broadly typical for a Russian bank with a focus on lower-risk top-tier corporate clients complemented by higher-margin retail lending (mostly unsecured).

Business Segments, End-2020

(in %)	Revenues	Assets
Corporate	34.2	52.2
SME	20.4	12.6
Retail	41.6	19.4
Treasury	3.8	15.8
Total	**100.0**	**100.0**

Source: Fitch Ratings, Alfa’s IFRS accounts

Fast Growth in Retail Lending; Risks are Likely to Moderate

Alfa's compound annual growth rate in retail lending in 2017-2020 was a high 48% in rouble terms, with an emphasis on unsecured lending. This is significantly above the growth of nominal household income in Russia and also materially higher than the sector average retail loan growth. However, at end-2020, Alfa's unsecured retail portfolio in dollar terms was still only 20% of gross loans or 1.1x FCC, which we view as an only moderate exposure. In addition, we do not expect this exposure to materially increase in the medium term with Alfa's retail loan growth over 2021-2022 is likely to be focused primarily on mortgages, a lower-risk product.

Alfa's Loan Book Structure and Growth

	Structure in dollar terms (%)				FX-Adjusted Growth (%)			
	2020	2019	2018	2017	2020	2019	2018	2017
Corporate loans	72.3	73.0	79.6	84.3	17.9	11.5	14.4	11.9
Retail loans:								
-unsecured	**20.3**	**22.3**	**18.6**	**15.0**	**20.0**	**38.5**	**58.3**	**41.6**
-secured	7.4	4.7	1.8	0.7	104.0	206.6	198.0	32.5
Total retail loans	27.7	27.0	20.4	15.7	33.8	53.1	66.0	41.8
Total gross loans	100.0	100.0	100.0	100.0	22.0	19.8	22.4	15.6
Unsecured retail loans/FCC	**112.0**	**123.0**	**90.6**	**75.6**				

Source: Fitch Ratings, Alfa's IFRS accounts

We expect Alfa's unsecured retail loan growth to be in line with the market in 2021-2022 and the unsecured retail loan portfolio to remain moderate relative to capital. Along with gradual portfolio seasoning, this should result in a moderation of risks related to fast retail loan growth.

Lower Risk Appetite in Corporate Lending

In Fitch's view, Alfa's corporate loan book (72% of gross loans at end-2020) is of lower-to moderate credit risk, at least judging by the quality of the largest corporate borrowers. Single-borrower concentrations are slightly higher than at high-rated Russian peer banks, but Alfa is exposed to top-tier Russian corporates, and risks are also mitigated by fast corporate loan turnover because most of the loans are short-term working capital facilities. The industry structure of Alfa's corporate book largely resembles that of the broader Russian economy.

Ratings Supported by Strong Execution

Although Fitch considers Alfa's strategy of fast expansion in retail lending to be risky, we believe that execution has been robust so far. This view is justified by the stability of Alfa's asset quality and profitability metrics in 2020, despite the negative pressure on the broader economic environment. In addition, the resilience of Alfa's loan quality in the previous crises was superior to other banks in Russia (except for larger foreign-owned banks). Alfa's experience in recovering problem loans in corporate lending and dealing with non-core assets is probably the best in the market judging by previous crises. Based on strong execution through 2020, Fitch upgraded Alfa's Management and Strategy score to 'BBB-' in April 2021.

Alfa's Corporate Loans

(% of total)	2020	2019
Oil and gas	17.9	16.9
Metals and mining	12.8	13.0
Food industry	10.6	11.9
Transport	10.2	6.4
Trade and commerce	9.0	9.6
Real estate	8.8	9.7
Finance	6.5	9.7
Chemistry	6.4	6.3
Telecom	5.6	6.3
Nuclear industry	3.7	1.6
Other	8.5	8.6
Total	**100.0**	**100.0**

Source: Fitch Ratings, Alfa's IFRS accounts

Financial Profile – Key Latest Developments

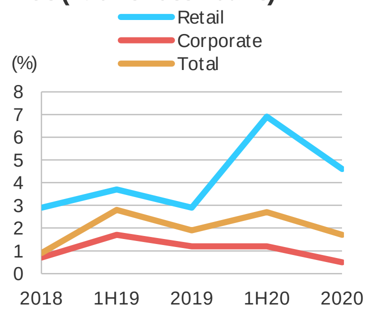
Resilient Asset Quality

We believe that Alfa's loan quality is consistent with an investment-grade rating. This view is based on the solid quality of Alfa's largest corporate loans, as most of these borrowers are rated 'bb' or above; the stable quality of Alfa's unsecured retail loan vintages in 2020, despite the pandemic; the resilience of 2020 LICs amid the economic downturn; and Alfa's LICs in the past ten years being largely consistent with other investment-grade rated banks in Russia. At end-2020, Alfa's headline impaired loan ratio (4.1%) was just marginally above the 4% 'bbb' threshold.

In 2020, there was an only moderate 100bp increase of Stage 3 loans in retail lending, although over a half of impaired loans in retail, and 80% of impaired loans in the corporate segment are non-overdue. According to the management, loan restructuring due to the pandemic amounted to about 2.6% of gross loans at end-2020 (mostly retail loans and medium-sized and small corporates), and there are no restructured loans in Stage 1 bucket.

Stage 2 loans were stable in the retail segment, but spiked to 13% in corporate lending at end-2020 (end-2019: 5%). Fitch attributes this to Alfa's conservative loan classification policies. Fitch believes that among the largest Stage 2 exposures there are no particularly risky loans, and in our view, Alfa will have to absorb a very limited additional impairment on its Stage 2 exposures.

LICs (% of Gross Loans)



Source: Fitch Ratings, Alfa's IFRS accounts

Alfa's IFRS 9 Loan Quality (% of Gross Loans)

	2020				2019			
	Stage 3	Stage 2	LLA	LLA / S3	Stage 3	Stage 2	LLA	LLA/S3
Corporate loans	**3.7**	**13.1**	**2.6**	**69.2**	**4.3**	**5.1**	**2.5**	**57.5**
Retail loans, incl.:								
Cash loans	7.2	5.7	6.9	96.6	5.2	5.6	4.9	94.2
Credit cards	5.9	10.7	9.5	160.9	4.1	10.4	7.3	175.2
Mortgages	0.4	0.2	0.4	108.3	0.3	0.3	0.6	166.7
Total retail loans	**5.0**	**5.4**	**5.8**	**114.4**	**4.0**	**6.0**	**4.8**	**118.8**
Total loan book	**4.1**	**11.0**	**3.5**	**84.5**	**4.2**	**5.4**	**3.1**	**73.3**

Source: Fitch Ratings, Alfa's IFRS accounts

Stable Profitability Metrics

Alfa's profitability ratios have consistently been within the 'bbb' threshold over the past several years. Despite some volatility in net income, we view Alfa's earnings stability as strong, because overall profitability should be considered together with other comprehensive income (OCI). The latter includes gains less losses from foreign currency, which we view as recurring. The ratio of total comprehensive income/risk-weighted assets (RWAs) has been stable over the past five years, at 2.5%, which is well above the 'bbb' threshold.

Alfa's pre-impairment profit (including OCI) was stable in the past several years, at over 5% of average gross loans. This provides the bank with reasonable loss absorption capacity, especially in light of only moderate exposure to more volatile unsecured retail lending. Due to only moderate LICs in 2020, Alfa was able to post reasonable bottom line results, with total comprehensive income exceeding 12% of average equity, which is largely consistent with pre-pandemic results. We believe that in 2021 Alfa is well-positioned to maintain its LICs below 2% and post a double-digit return on equity.

Regulatory Capital Ratios Have Only Moderate Buffers

At end-2020, Alfa's FCC ratio was a reasonable 14.7%, which is above the 'bbb' threshold. The RWAs-to-total assets ratio was 82%. Such RWA density is reasonable in our view and is also in line with other high-rated Russian banks. However, we adjust Alfa's capital and leverage score negatively for tighter regulatory capital management. Alfa's regulatory capital ratios are lower compared to IFRS, mostly due to higher regulatory loan provisions and higher risk-weights on unsecured retail loans.

In 2020 regulatory capital ratios were supported by one-off currency gains and sector-wide relaxation of certain risk-weights in corporate lending. Accordingly, the headroom over the statutory minimums was in the comfortable 150bp-200bp range throughout 2020. However, in the longer-term, we expect Alfa to operate with an only moderate headroom over statutory minimums, including buffers. Fitch notes that in the past in certain reporting periods the uplift of Alfa's regulatory capital ratios over the statutory minimums was below 100bp, which we view as thin. The risks are partially mitigated by the fact that Alfa's capital ratios are inversely correlated with the strength of the rouble, which reduces solvency risks in case of a sharp economic downturn. Alfa's total capital ratio should receive a 50bp boost following the placement of Alfa's USD350 million Tier 2 eurobonds in April.

Alfa's overall balance sheet growth is unlikely to materially exceed Alfa's internal capital generation capacity, and we do not expect large dividend payments (given tighter regulatory capital ratios), so capital ratios should remain stable in the next few years.

Solid Funding and Liquidity Profile

Alfa's ratio of gross loans to deposits is within the 'bbb' range. At end-2020 Alfa was 82% deposit-funded, and about a third of total liabilities represents very granular on demand/current retail deposits, which we view as a stable funding source in Russia. This reflects significant number of salaried clients at Alfa and the bank's strong settlement franchise, mobile and e-banking for retail clients and other services. Although not all of current retail deposits are interest-free, Alfa's reliance on current accounts translates into low 2.3% cost of customer funding. Corporate deposit concentrations are lower compared to peers and to sector averages. In Fitch's view, Alfa's funding structure is comparable to Sberbank and some of the foreign-owned banks.

Alfa's near-term wholesale-funding repayments are limited and the bank's liquidity buffer (consisting of cash and bonds) exceeded USD15 billion (28% of total liabilities) at end-2020.

Regulatory Capital Ratios (%)

		Alfa	
	Min.[a]	2020	2019
Core tier-1 (N20.1)	8.00	9.73	8.76
Tier-1 (N20.2)	9.50	11.21	10.27
Total (N20.0)	11.50	12.86	12.32

[a] Including fully-loaded capital conservation and systemic importance buffers
Source: Fitch Ratings, CBR

Funding Structure

(% of total liabilities)	2020	2019
Retail deposits	40.9	40.2
Corporate deposits	41.3	40.3
Debt securities	6.9	7.6
Due to banks	5.3	4.8
Subordinated debt	1.5	3.1
Other	4.1	4.0
Total	**100.0**	**100.0**
Memo:		
On demand deposits	53.8	42.6
Ten largest customers	9.4	11.0

Source: Fitch Ratings, Alfa's IFRS accounts

Summary Financials and Key Ratios

	31 Dec 20 Year end (USDm) Audited - unqualified	31 Dec 19 Year end (USDm) Audited - unqualified	31 Dec 18 Year end (USDm) Audited - unqualified	31 Dec 17 Year end (USDm) Audited - unqualified
Summary income statement				
Net interest and dividend income	2,171	2,117	1,920	1,677
Net fees and commissions	1,241	1,044	978	846
Other operating income	295	-177	252	-271
Total operating income	3,707	2,984	3,150	2,252
Operating costs	1,300	1,348	1,236	1,203
Pre-impairment operating profit	2,407	1,636	1,914	1,049
Loan and other impairment charges	674	652	261	10
Operating profit	1,733	984	1,653	1,039
Other non-operating items (net)	-13	-9	-19	72
Tax	373	271	313	313
Net income	1,347	704	1,321	798
Other comprehensive income	-444	324	-624	100
Fitch comprehensive income	**903**	**1,028**	**697**	**898**
Summary balance sheet				
Assets				
Gross loans	42,044	38,569	29,626	27,889
- Of which impaired	1,723	1,634	1,025	2,056
Loan loss allowances	1,456	1,197	888	820
Net loans	40,588	37,372	28,738	27,069
Interbank	1,443	1,208	1,703	1,922
Derivatives	552	490	800	485
Other securities and earning assets	10,805	12,077	10,300	8,825
Total earning assets	53,388	51,147	41,541	38,301
Cash and due from banks	7,030	6,872	4,669	5,441
Other assets	1,432	1,447	989	986
Total assets	**61,850**	**59,466**	**47,199**	**44,728**
Liabilities				
Customer deposits	43,708	41,422	32,106	29,552
Interbank and other short-term funding	3,104	2,943	2,359	2,484
Other long-term funding	4,645	5,417	4,334	4,935
Trading liabilities and derivatives	657	661	494	635
Total funding	52,114	50,443	39,293	37,606
Other liabilities	1,065	881	708	740
Preference shares and hybrid capital	918	966	943	695
Total equity	7,753	7,176	6,255	5,687
Total liabilities and equity	**61,850**	**59,466**	**47,199**	**44,728**

Source: Fitch Ratings, Fitch Solutions, Alfa's IFRS accounts.

Summary Financials and Key Ratios (Cont.)

	31 Dec 20	31 Dec 19	31 Dec 18	31 Dec 17
Profitability				
Operating profit/risk-weighted assets	3.3	2.0	4.1	2.6
Net interest income/average earning assets	4.3	4.6	4.8	4.7
Non-interest expense/gross revenue	35.1	45.2	39.2	53.4
Net income/average equity	18.2	10.5	22.1	14.9
Fitch comprehensive income/average equity	12.2	15.4	11.7	16.8
Asset quality				
Impaired loans ratio	4.1	4.2	3.5	7.4
FX-adjusted loan growth	22.0	19.8	22.4	15.6
Loan loss allowances/impaired loans	84.5	73.3	86.6	39.9
Loan impairment charges/average gross loans	1.7	1.9	0.9	0.0
Capitalisation				
Fitch Core Capital ratio	14.7	14.4	15.0	14.0
Risk weighted assets/total assets	81.7	85.9	88.3	90.4
Tangible common equity/tangible assets	12.4	11.8	13.0	12.4
Net impaired loans/Fitch Core Capital	3.5	6.3	2.3	22.4
Funding and liquidity				
Loans/customer deposits	96.2	93.1	92.3	94.4
Customer deposits/funding	83.5	81.6	80.8	78.5

Source: Fitch Ratings, Fitch Solutions, Alfa's IFRS accounts.

Debt Ratings

Debt Rating Classes

Debt rating class	Rating
Debt issued by JSC Alfa-Bank and Alfa Bond Issuance plc	
Senior unsecured debt	BBB-
Tier-2 subordinated debt	BB
Additional tier-1 notes	B+
Debt Issued by ABH Financial Limited (through Alfa Holding Issuance plc)	
Senior unsecured debt	BB+

Source: Fitch Ratings

The senior unsecured debt issued by Alfa is rated in line with Alfa's IDRs, assuming average recovery prospects in the event of default.

Alfa's 'BB' subordinated debt rating is notched down twice from its VR, reflecting higher loss severity relative to senior unsecured creditors.

The additional tier-1 (AT1) perpetual notes are rated at 'B+', four notches lower than the bank's VR. The notching reflects: deep subordination of the perpetual notes relative to senior unsecured creditors, resulting in higher loss severity; and Alfa's option to cancel coupon payments at its discretion, resulting in additional non-performance risk.

The write-down trigger on the bank's AT1 securities is the regulatory core Tier 1 ratio falling below 5.125%. Alfa can omit coupons on these securities at its sole discretion. There is no specific trigger which would oblige Alfa to omit coupons before hitting the 5.125% core tier-1 ratio. However, if the bank's capital ratios fell below minimum levels including buffers (e.g. 8.0% for core Tier 1) then the bank would be obliged to submit a capital recovery plan to the Central Bank of Russia, and in Fitch's view there would be at least moderate risk that any such plan would include the omission of coupons on the AT1 securities.

Senior unsecured debt issued by ABH Financial Limited (ABHFL), Alfa's holding company, is rated at 'BB+', which is in line with ABFHL's IDRs. We notch ABFHL down once from Alfa's IDRs to capture the absence of any consolidated regulation for the two entities due to their being incorporated in different jurisdictions.

Environmental, Social and Governance Considerations

FitchRatings **Joint Stock Company Alfa-Bank**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Joint Stock Company Alfa-Bank has 5 ESG potential rating drivers

- Joint Stock Company Alfa-Bank 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 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.

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.