FitchRatings

Banks
Universal Commercial Banks
Austria

BAWAG P.S.K.

Key Rating Drivers

Healthy Financials; Strong Risk Controls: BAWAG P.S.K.'s ratings reflect its healthy financials, effective risk management and fairly conservative risk appetite. Extensive due diligence and M&A expertise have so far adequately mitigated the execution risk arising from multiple, albeit mostly small, acquisitions over the past few years. Management has also demonstrated its ability to integrate several acquisitions simultaneously.

Exit of Dominant Shareholder: Corporate governance remains sound and benefits from the withdrawal of a dominant private-equity shareholder with whom the bank jointly invested in selected projects and portfolios on several occasions. The exit has increased the share of free float to 78% of the bank's capital outstanding in January 2020.

Sound Asset Quality: Asset quality benefits from BAWAG's conservative risk appetite in its domestic Austrian market and in Germany, an increasingly important core market where it has rapidly grown through acquisitions. The bank's non-performing loans (NPLs; IFRS 9 Stage 3 loans) ratio of 2.6% at end-1H19 is likely to be close to its cyclical low after years of strong economic conditions.

Manageable Opportunistic Investments: BAWAG's exposure to international real estate and higher-risk leveraged finance, highly rated collateralised loan obligations (CLOs) and NPL financing is manageable. It reflects the bank's opportunistic behaviour in search for yield, but also diversifies its credit exposure by country and asset class. Risk management appears effective.

Strong Performance: BAWAG's performance level and stability compare well with domestic peers' and benefit from tight cost control, efficient processes and price discipline. International real estate and corporate lending as well as controlled growth in consumer lending sustain the bank's sound interest margins in an increasingly adverse interest rate environment. Legal risk from the City of Linz's lawsuit against BAWAG remains moderate, as even the worst possible outcome would be manageable for BAWAG in light of its sound profitability.

Adequate CET1 Ratio Target: BAWAG's common equity Tier 1 (CET1) ratio declined to pro forma 13% at end-3Q19, taking into account a EUR400 million share buyback in 4Q19, but it still firmly exceeds its regulatory requirements. Management has earmarked excess capital above its 12%-13% CET1 ratio target range for organic growth, acquisitions and profit distribution through dividends and share buybacks. Fitch Ratings views this target as adequate, given the financial flexibility that arises from the bank's sound recurring profits.

Large Retail Deposit Base: A large and stable deposit base and increasingly diversified access to wholesale markets underpin the bank's solid funding structure. We expect future issuance of subordinated debt to be at the level of BAWAG Group, the holding company, although BAWAG P.S.K. should remain the main issuing entity for senior unsecured and secured debt.

Rating Sensitivities

Earnings and Asset Diversification: An upgrade would require a record of resilient earnings and asset quality through the economic cycle amid more adverse market conditions as well as the establishment of solid franchises in the bank's targeted foreign markets, while maintaining a conservative risk appetite and a focus on retail banking.

Uncontrolled Growth Could Trigger Downgrade: A downgrade could arise from excessive growth putting pressure on the bank's capital ratios, or resulting in unexpectedly high operational and integration risk. A downgrade could also arise from a deteriorating risk profile, or from a material increase in risk appetite.

Ratings

Foreign Currency	
Long-Term IDR	A-
Short-Term IDR	F1
Viability Rating	a-
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA+
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Positive

Applicable Criteria

Bank Rating Criteria (October 2018)

Short-Term Ratings Criteria (May 2019)

Related Research

Fitch Affirms BAWAG P.S.K. at 'A-'; Outlook Stable (January 2020)

Fitch Ratings 2020 Outlook: Western European Banks (December 2019)

Analysts

Markus Glabach
+49 69 768076 195
markus.glabach@fitchratings.com

Marco Diamantini
+49 69 768076 114
marco.diamantini@fitchratings.com

Debt Rating Classes

Rating Level	Rating
Long-term senior preferred	A-
Tier 2 subordinated debt	BBB+
State-guaranteed notes	AA-

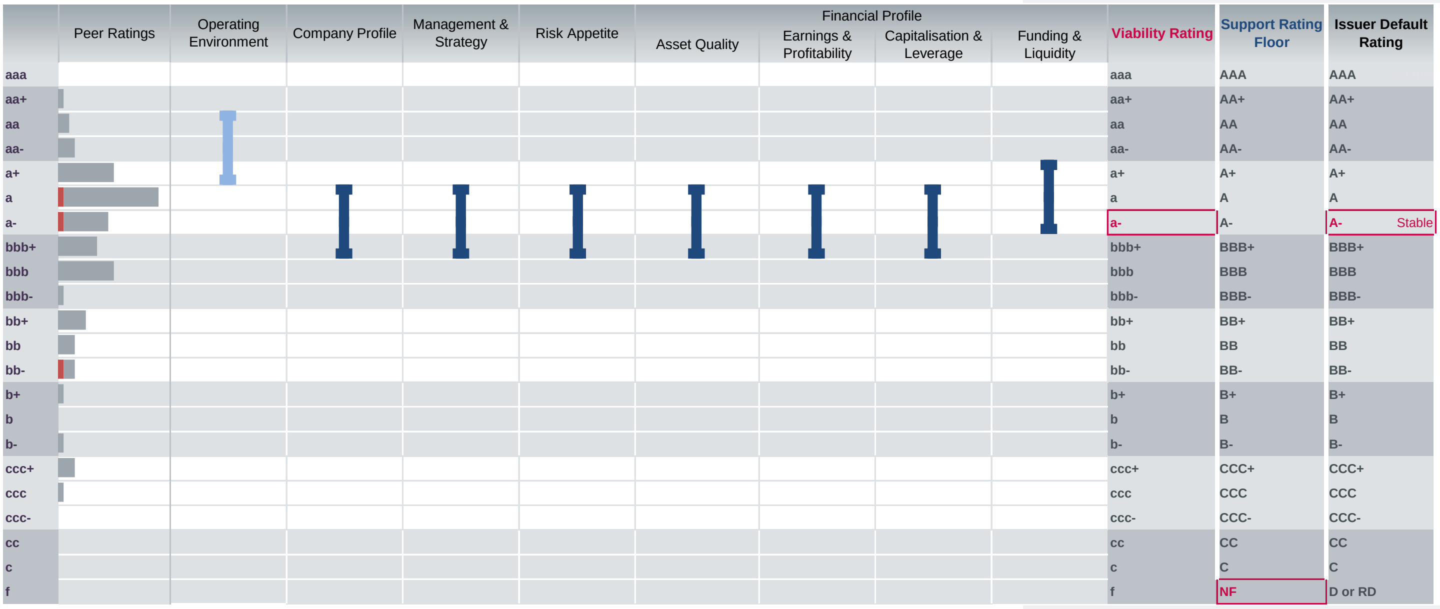
Source: Fitch Ratings

BAWAG's senior preferred notes' rating is equalised with the bank's Long-Term Issuer Default Rating (IDR) because the buffer of qualifying junior and senior non-preferred debt is not large enough to warrant a one-notch uplift of the senior preferred debt rating.

The Tier 2 subordinated notes are rated one notch below the Viability Rating (VR) to reflect their below-average recovery prospects. These securities are subordinated to all senior unsecured creditors. No notching is applied for incremental non-performance risk because there is no coupon flexibility prior to non-viability and the notes would only be written down once the point of non-viability is reached. On 15 November 2019, Fitch published an exposure draft of its *Bank Rating Criteria*, which included proposals to alter the notching of certain debt securities. If the final *Bank Rating Criteria* are in line with the exposure draft, BAWAG's Tier 2 debt ratings could be downgraded by one notch to 'BBB'.

BAWAG's state-guaranteed debt ratings reflect our understanding that the Austrian Postsparkassen Act, on which the guarantee is based, does not oblige the federal government to honour the guarantee on first demand. We believe there is an extremely high probability that the government would fully reimburse grandfathered creditors, should the guarantee be triggered by a default of BAWAG. However, in our opinion, there is no certainty that a reimbursement would be carried out on a timely basis. To reflect this uncertainty, the ratings are not derived from the Austrian sovereign rating (AA+/Positive). Instead, they are notched up three times from BAWAG's Long-Term IDR of 'A-', which reflects the outstanding recovery prospects arising from the guarantee.

Ratings Navigator



Significant Changes

Adequate Capitalisation After Large Share Buyback in 4Q19

BAWAG's CET1 ratio exceeded its Austrian peers' average at end-3Q19. It is likely to remain above the upper end of its 12%-13% target by end-2019, even though management returned capital to shareholders via a EUR400 million share buyback in 4Q19 in addition to its targeted 50% dividend pay-out ratio. The large size of the buyback suggests a dearth of suitable acquisition targets that could fulfil BAWAG's return on tangible equity target of at least 15% post-integration as the operating environment is becoming increasingly challenging.

We view BAWAG's capitalisation as broadly commensurate with its business model and risk profile despite its reduced CET1 ratio. Capitalisation should remain comfortably above regulatory requirements as strong profit generation provides significant flexibility. BAWAG's risk density is high relative to peers operating in similarly advanced countries, especially considering the bank's high share of secured mortgage lending. The high density partly reflects the bank's use of the standardised approach for a large share of its exposures and indicates the significant optimisation potential available from the ongoing roll-out of internal models.

Sound Corporate Governance Benefits from Exit of Dominant Shareholder

In 4Q19, the US private equity firm Cerberus Capital Management sold most of its 26% stake in BAWAG Group. The free float increased to 78% at end-January 2020 from 48% at end-3Q19. The existence of two controlling private equity shareholders with whom BAWAG used to originate business (e.g. portfolio and real estate financing. but also the acquisition of a 2.5% stake in Hamburg Commercial Bank in 2018) had constrained our assessment of the bank's corporate governance.

Cerberus's representatives left the bank's supervisory board, which now has six members, three of whom are independents. Corporate governance also benefits from BAWAG Group's stock listing and extensive scrutiny from international capital markets. In our view, this provides reasonable protection of creditors' interests.

Adverse Ruling in City of Linz Case Neutral to Credit Assessment

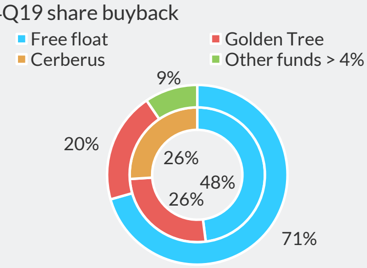
Legal risk from the Austrian City of Linz's lawsuit against BAWAG remains moderate, in our view, as even the worst possible outcome for BAWAG would be manageable in light of its earnings capacity. The legal proceedings relate to a Swiss franc/euro forward contract concluded in 2007 and impaired to EUR254 million in 2011. The exposure accounted for over a quarter of BAWAG's NPLs at end-3Q19. In January 2020, the relevant court of first instance

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

Shareholder Structure

Before (inner ring) and after (outer ring) 4Q19 share buyback



Source: Fitch Ratings, BAWAG

ruled in an interim judgement against BAWAG, stating that the contract was not valid because the city's treasurer was not authorised to enter into the swap. The judgement, which BAWAG will appeal, did not clarify the level of potential mutual claims.

Brief Company Summary and Key Latest Developments

Resilient Austrian Economy, Banking Sector's Profitability Nears Cyclical Peak

Austria has a rich, diversified, open, high-value-added economy with strong political and social institutions, low private-sector debt and a high household savings rate. Fitch expects GDP growth of 1.5% in 2020 and 1.7% in 2021 as the weakening external sector partially offsets strong investments and the tight labour market. Foreign demand will be a constraint in 2020 as trade tensions and a marked slowdown of trading partners weigh on exports. The Positive Outlook on the sovereign rating reflects the favourable fiscal and debt/GDP developments.

The Austrian banking sector's profitability further improved to strong levels well above its cyclical average and the European average in 2019, leading to stronger capital ratios that now compare well with European peers. However, the sector's performance is increasingly likely to have peaked. This is because the margin pressure from low interest rates is likely to persist while we do not expect the extremely low loan impairment charges (LICs) to be sustainable.

Low interest rates and favourable credit conditions fuel demand for loans, increasingly from corporates in the residential real-estate sector. The low rates have inflated housing prices in Austria by more than 6% a year over the past five years on average. This increasingly exposes banks' asset quality to the risk of loosening lending policies. However, macro-prudential measures introduced by the Austrian authorities in 2H18 mitigate this risk and underwriting standards appear to remain adequate.

Austrian Retail-Focused Multi-Channel and Multi-Brand Bank

BAWAG, the fourth-largest bank in Austria, focuses on domestic retail banking. Its growing retail and corporate banking activities in western Europe (mostly Germany) and the US provide significant diversification.

Business Segments

	Main activities	Assets end-1H19 (EURbn)	Pre-tax profit 1H19 (EURm)
Retail & SME	Domestic and international retail and small business banking, online banking, social housing financing, leasing and factoring	17.4	185
Corporates & public sector	Domestic and international corporate banking, international real estate and Austrian public-sector financing	14.2	95
Treasury	Treasury operations	9.2	44

Source: Fitch Ratings, BAWAG

BAWAG mitigates its moderate size by cooperating with insurance, asset management and retail partners (high-street and online) to access new clients. Recent partnerships include Metro Cash & Carry Austria (wholesale) and MediaMarktSaturn (electronic goods retailer). The bank's Austrian retail and SME franchise is smaller and offers less pricing power than larger domestic peers, but its performance is well above-average thanks to highly efficient management. It serves about 2.5 million clients in Austria via about 90 branches and online.

BAWAG's franchise was not dented by the termination of its long-term cooperation with the Austrian Post (the bank had retained 95% of the affected customers by end-2019). Its German retail franchise has grown rapidly in recent years through acquisitions, most notably of Suedwestbank AG, a regional retail and corporate lender, in 2017, but it remains small and has yet to be fully integrated. Its online banking activities benefit from the robust presence of its online bank easygroup in Austria and expansion in Germany. The bank also lends to Austrian and international (mostly US and UK) corporates, but its non-retail market shares are small.

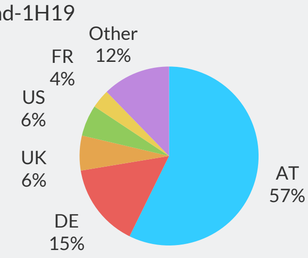
Economic Forecasts

Austria (%)	2019f	2020f	2021f
Real GDP growth	1.6	1.5	1.7
Unemployment rate	4.6	4.8	4.8
General government debt/GDP	70.1	67.3	64.3
Consumer price growth	1.5	1.7	2.0

Source: Fitch Ratings

Exposures by Geography

End-1H19



Source: Fitch Ratings, BAWAG

Stable Management Team with Good Execution Record

BAWAG's management has demonstrated its extensive knowledge of the Austrian and German markets through its strong execution of the bank's restructuring following its acquisition by Cerberus in 2007. As execution also benefitted from an unusually long period of benign economic conditions, its effectiveness has yet to be tested through the cycle. We believe that Cerberus's exit at end-2019 did not deprive the bank of its access to high-quality resources, as BAWAG has built up adequate expertise internally, notably in international corporate lending, M&A and portfolio transactions.

Clear Strategic Positioning with Achievable Financial Targets

BAWAG focuses on mass retail banking primarily in Austria and, increasingly, in Germany. Its strong operational efficiency has been pivotal to maintain above-average profits in recent years. The restructuring of its Austrian branch network (largely via its separation from the Austrian Post's branches until end-2019) and investments in digitalisation should generate further efficiency gains. Management keeps a CET1 ratio buffer of 50bp-100bp to accommodate organic growth and small bolt-on acquisitions (mostly in Austria and Germany), complemented by opportunistic acquisitions of loan portfolios in highly developed markets. Its strategic targets appear ambitious but feasible given management's execution record.

Reduced Loan Growth; Acquisitions Pose Execution Risk

BAWAG's repeated acquisitions and investments add geographical and product diversification, but they also create sizeable execution and operational risk and consume significant management attention. This is mitigated by extensive due diligence, smooth integration of bolt-on acquisitions over the past three years and adequate in-house M&A expertise. However, the success of these recent integrations has yet to be tested through the cycle.

The bank's considerably reduced loan growth over the past two years and the return of about 10% of its capital to shareholders hint at an increasing difficulty to identify organic growth opportunities and suitable acquisition targets at this advanced stage of the credit cycle amid a recurring profitability challenges across the European banking sector, in our view.

Effective Risk Management Mitigates Appetite for Opportunistic Investments

Standardised and largely automated underwriting processes support BAWAG's cost and risk management, especially in retail banking. Risk controls are robust and underwriting standards reasonably conservative given the bank's focus on high-quality assets in developed markets. The bank's appetite for higher-risk assets, including opportunistic financing of real estate NPLs, leveraged loans, CLOs as well as international corporates and international commercial real estate, is significant. Its expertise and risk limits have afforded adequate protection but have yet to be tested amid less benign conditions.

Market Risk in Line with Domestic Peers

BAWAG's market risk mainly arises from interest-rate and foreign-currency positions in its banking book, which are adequately hedged. Similar to Austrian peers, its back book of retail loans predominantly carry variable rates, but the majority of new mortgage lending has been on a fixed-rate basis in the past few years. The bank estimates that a 25bp downward parallel shift of the yield curve would cut its net interest income by EUR30 million over two years.

The bank operates predominantly within the eurozone, but it holds material foreign-currency positions, for instance in its UK mortgage portfolio. Similar to domestic peers, it has not extended new loans in Swiss francs to retail clients without matching revenues since 2008, thus halving its legacy exposure to a manageable EUR1.1 billion by end-2018. Its legacy proprietary trading book has been in run-off since it discontinued active trading in 2012.

Management Targets

	2019	2020
Pre-tax profit (EURm)	>600	>640
Return on tangible common equity (%)	15-20	15-20
Cost/income ratio (%)	<43	<40
CET1 ratio (%)	12-13	12-13

Source: Fitch Ratings, BAWAG

Summary Financials and Key Ratios

	30 Jun 19 6 months - interim (EURm)	31 Dec 18 Year end (EURm)	31 Dec 17 Year end (EURm)	31 Dec 16 Year end (EURm)
Summary income statement				
Net interest and dividend income	435	841	791	730
Net fees and commissions	143	283	2179	193
Other operating income	1	3	103	35
Total operating income	579	1,126	1,111	958
Operating costs	267	525	532	442
Pre-impairment operating profit	312	602	579	516
Loan and other impairment charges	25	42	62	43
Operating profit	287	559	518	474
Other non-operating items (net)	n.a.	13	0	-3
Tax	69	136	51	-13
Net income	219	437	467	484
Summary balance sheet				
Gross loans	31,332	30,747	31,080	28,699
- Of which impaired	822	806	715	547
Loan-loss allowances	270	265	276	205
Net loans	31,062	30,482	30,804	28,494
Interbank	3,614	4,340	3,660	1,635
Derivatives	907	753	975	1,329
Other securities and earning assets	6,850	7,218	8,583	6,504
Total earning assets	42,433	42,793	44,022	37,962
Cash and due from banks	803	1,069	1,180	1,020
Other assets	1,227	836	869	761
Total assets	44,463	44,698	46,071	39,743
Customer deposits	30,089	30,195	30,947	25,998
Interbank and other short-term funding	3,024	4,431	4,009	2,064
Other long-term funding	4,812	4,425	5,664	6,015
Trading liabilities and derivatives	1,162	561	555	1,100
Total funding	39,087	39,612	41,175	35,177
Other liabilities	1,390	1,081	1,286	1,430
Preference shares and hybrid capital	297	298	n.a.	n.a.
Total equity	3,689	3,707	3,610	3,136
Total liabilities and equity	44,463	44,698	46,071	39,743
Ratios (annualised as appropriate)				
Profitability				
Operating profit/RWAs	2.8	2.7	2.4	2.5
Net interest income/average earning assets	2.1	2.0	2.0	2.1
Cost-income ratio	46.3	46.8	48.0	46.5
Net return on equity	11.8	12.0	14.0	15.6

Summary Financials and Key Ratios (Cont.)

	30 Jun 19	31 Dec 18	31 Dec 17	31 Dec 16
Asset quality				
Impaired loans ratio	2.6	2.6	2.3	1.9
Growth in gross loans	1.9	-1.1	8.3	15.0
Loan loss allowances/impaired loans	32.9	32.9	38.6	37.5
Loan impairment charges/average gross loans	0.2	0.1	0.2	0.2
Capitalisation				
Fitch Core Capital ratio	15.1	15.1	13.6	13.3
Tangible common equity ratio	7.1	7.0	6.4	6.5
CET1 ratio	15.1	14.5	13.5	13.9
Basel leverage ratio	7.4	7.1	6.2	6.5
Net impaired loans/FCC	17.8	17.5	15.0	13.5
Funding and liquidity				
Loans/customer deposits	104.1	101.8	100.4	110.4
Liquidity coverage ratio	148.0	179.0	150.0	138.0
Customer deposits/funding	77.9	76.7	76.2	76.3

Source: Fitch Ratings

Key Financial Metrics – Latest Developments

Cost Efficiency Drives Strong Profitability and Is a Key Competitive Advantage

BAWAG's profitability is particularly stable and strong by western European banking standards and results from years of improving cost efficiency and disciplined asset pricing. Management's tight control of costs and process efficiency, which is typical for a private-equity-owned bank, should remain a competitive advantage. However, the increasingly challenging operating environment is unlikely to leave much room to achieve and maintain management's targeted cost/income ratio of below 40% for 2020 despite further digitalisation and standardisation of products and services.

Higher-Yielding Portfolios and Balance-Sheet Optimisation Support Margins

BAWAG's pre-tax profit rose by 5% yoy to a record EUR451 million in 9M19, helped by acquisitions in the SME segment and loan growth in its higher-risk international real estate and international corporate loan books. These higher-yielding portfolios as well as unsecured consumer lending were instrumental to uphold the bank's net interest margin in 2018 and 9M19 amid low interest rates. Balance-sheet optimisation including a buyback and reissuance of Tier 2 capital and a redeployment of excess liquidity into higher-yielding assets also helped to stabilise margins over the past two years.

The ECB's latest rate cut makes BAWAG's EUR640 million pre-tax profit target for 2020 more challenging. Mitigating the pressure on interest margins through loan growth will become more difficult as the economic outlook weakens. LICs should remain within the bank's guidance of 15bp-25bp through-the-cycle this year. Loan impairments are increasingly likely to rise thereafter, particularly in the higher-risk corporate portfolios, but they should remain manageable given BAWAG's prudent underwriting standards.

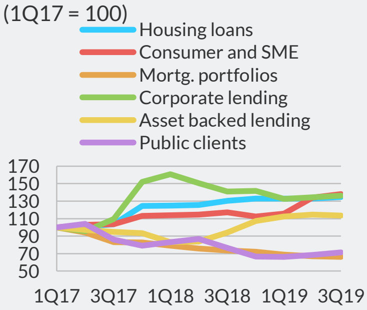
Asset Quality Benefits from Focus on Developed Markets

BAWAG's asset quality compares well with its domestic peers' and reflects its retail banking focus in developed markets and its adequately diversified loan book. BAWAG's reported NPL ratio of 1.9% at end-3Q19 (1.4% excluding the litigation with Linz) mainly results from benign economic conditions and low interest rates in its core markets. We therefore expect NPLs to gradually increase in the medium term.

LICs could arise from the run-off of largely performing mortgage portfolios (EUR1.1 billion in the UK and EUR0.8 billion in France at end-1H19), given their high share of interest-only loans and remaining average tenors of 13 and 10 years, respectively. The bank keeps the NPL ratio

Indexed Loan Growth

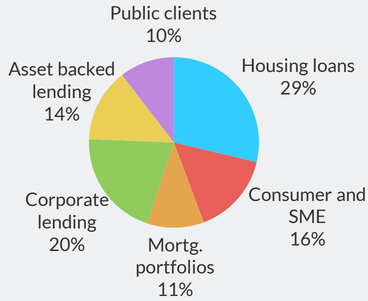
(1Q17 = 100)



Source: Fitch Ratings, BAWAG

Mortg. portfolios = comprises primarily portfolios of Swiss Franc, UK and French performing mortgages;
Asset backed lending = CRE and NPL-financing

Asset Split (End-3Q19)



Source: Fitch Ratings, BAWAG

in its consumer loan book very low by selling loans quickly as they default. Credit risk from recent acquisitions appears limited as the bank has avoided targets with material credit issues.

BAWAG's securities portfolio is diversified and predominantly investment grade, focused on unsecured and secured bonds of reasonably highly rated western European and US banks. In 2017, it started investing in 'AAA'-rated senior collateralised loan obligations from western and northern European and US companies, with a volume of EUR957 million at end-2018.

Sizeable and Stable Retail Deposits Underpin Solid Funding Profile

Client deposits account for over 75% of BAWAG's funding, with sizeable growth potential in Germany, where we expect retail deposits to grow broadly in line with the local loan book. BAWAG's debt issuance is diversified by geography, currency and product and meets strong investor demand. Its issuance of mortgage and public-sector covered bonds and residential mortgage-backed securities adds funding flexibility and limits its reliance on unsecured debt.

The bank's liquidity profile is sound. The controlled decline of its regulatory liquidity coverage ratio to a still comfortable 143% at end-3Q19 reflects the repayment of EUR1.75 billion of the ECB's targeted long-term refinancing operations and a 29% yoy contraction of the liquidity reserve at end-1H19 driven by a redeployment of excess liquidity into higher-yielding assets.

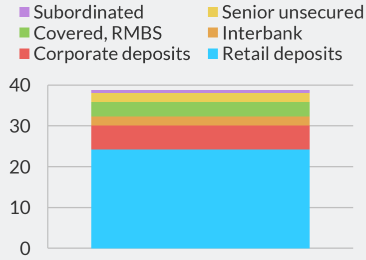
Regulatory Driven Issuances

As the resolution entity for the group's single-point-of-entry resolution strategy, BAWAG P.S.K. should remain the sole issuer of senior unsecured debt. At end-3Q19, the group's consolidated eligible liabilities and own funds of 13.8% exceeded the regulatory requirement (MREL) of 11.94% set at BAWAG P.S.K.'s level. However, the bank expects that only BAWAG P.S.K.'s debt will be MREL-eligible. To fulfil its subordination requirement (expected to be applicable to Austrian domestically systemically important banks from 2020) with limited reliance on phasing-in, BAWAG issued a EUR500 million benchmark senior non-preferred bond in 3Q19 and plans to issue up to EUR1.5 billion of senior preferred and non-preferred notes to meet its MREL and subordination requirements by end-2022.

BAWAG Group issued its first CRR-compliant additional Tier 1 notes (EUR300 million) in 2018 and EUR400 million of Tier 2 notes in 1Q19 to replace EUR268 million of BAWAG's P.S.K.'s more expensive Tier 2 notes repurchased in 2018. We expect future junior debt issuance to be at BAWAG Group's level only, because regulatory capital issued by BAWAG P.S.K. is unlikely to be recognised in full for BAWAG Group's regulatory requirements.

Funding Mix

Excluding derivatives; in EURbn at end-1H19



Source: Fitch Ratings, BAWAG

Sovereign Support Assessment

BAWAG's Support Rating and Support Rating Floor reflect Fitch's view that senior creditors can no longer rely on full extraordinary state support. This is driven by the EU's Bank Recovery and Resolution Directive in force in Austria since 2015.

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A+ to A-
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		✓	

Environmental, Social and Governance Considerations

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

Credit-Relevant ESG Derivation

BAWAG P.S.K. has 5 ESG potential rating drivers

- BAWAG P.S.K. 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 left-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 the [number of] general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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.