FitchRatings

Banks
Wholesale Commercial Banks
Italy

Mediobanca Banca di Credito Finanziario S.p.A

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Derivative Counterparty Rating	BBB(dcr)
Viability Rating	bbb
Government Support Rating	ns

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

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

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Affirms Mediobanca at 'BBB'; Outlook Stable (March 2024)

Global Economic Outlook – March 2024

DM 100 Banks Tracker (December 2023)

Fitch Affirms Italy at 'BBB'; Outlook Stable (November 2023)

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Key Rating Drivers

Moderate Risk Profile Drives Ratings: Mediobanca Banca di Credito Finanziario S.p.A.'s (Mediobanca) Viability Rating (VR) is one notch above its 'bbb-' implied VR because its risk profile has high influence on the rating, underpinning good profitability and sound asset quality through the cycle compared to domestic peers with traditional commercial business models. The ratings also reflect a specialised and diversified business model with strong competitive positions in selected businesses, sound capitalisation, and a stable funding and liquidity profile.

Niche Business Profile: Mediobanca's well-established corporate and investment banking (CIB) and consumer lending franchises in Italy support profit generation through the cycle. The expansion of its wealth-management franchise, and focus on capital-light CIB activities, will improve its business profile, but execution is vulnerable to higher-for-longer interest rates reducing appetite for wealth management products.

Conservative Underwriting, Sound Controls: Mediobanca's operations in higher-risk segments than traditional commercial banks are mitigated by moderately conservative underwriting standards and adequate risk infrastructure. These allow effective control of risks, supporting the bank's performance throughout the cycles and we expect this to continue.

Mild Asset-Quality Deterioration Expected: Inflows of impaired loans were mostly muted over the past 12 months, despite the challenging operating environment. We expect consumer finance to be more severely affected than other segments from structurally higher rates and inflation. Nevertheless, tightened underwriting and a proactive approach to managing asset quality should result in modest asset-quality deterioration. We expect the group impaired-loans ratio to revert to structural levels close to 3% (end-2023: 2.5%) in the next 18 months.

Stable Profitability, Ongoing Structural Improvements: We expect Mediobanca's profitability to remain sound through 2024–2025. The bank should benefit from stable net interest margin, growing fee income, and a manageable increase in operating costs and loan-impairment charges (LICs). Mediobanca is committed to executing its strategy to expand capital-light revenues in wealth-management fees and CIB, helping structural profitability improvements. Nevertheless, these will take time to be fully visible and sustainable.

Sound Capitalisation: Mediobanca's sound capitalisation is underpinned by established internal capital generation throughout the cycles resulting in an ample buffer over regulatory minimums. We expect this to continue, although its common equity Tier 1 (CET1) ratio should decrease moderately from current levels (end-2023: 15.3%) due to higher shareholder remuneration and business growth, which will be partially offset by risk-weighted asset (RWA) optimisation.

Stable Funding and Liquidity: The impact of higher interest rates on funding costs has been manageable, despite Mediobanca's deposit franchise being less established than at traditional commercial banks in Italy. We expect Mediobanca to maintain a balanced funding and liquidity profile in the medium term, but its increasing focus on higher-end customers could make deposits more price-sensitive. The bank is well-positioned to retain customer savings converting deposits into assets under administration and under management.

Rating Sensitivities

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

Mediobanca's largely domestic focus means its ratings are sensitive to a downgrade of Italy's rating, or to a downgrade of our assessment of Italy's operating environment.

The ratings could be downgraded if Mediobanca's risk profile worsened materially, for example if the bank were to become more aggressive in its underwriting standards, including riskier asset classes, which Fitch does not expect.

The ratings could also be downgraded if Mediobanca's CET1 ratio falls towards 13% without the prospect of recovery in the short term. This weakening of capitalisation could be caused by a prolonged damage to the bank's earnings or an increase in its impaired-loans ratio sustainably above 4%.

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

An upgrade is currently unlikely and would be contingent upon an Italian sovereign upgrade. This would have to be accompanied by a much stronger business and risk profile (with an impaired loans ratio kept consistently below 2% and operating profit/RWAs at least above 3%), alongside strengthening capitalisation, with a CET1 ratio consistently above 17%.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	BBB+/F2
Senior preferred debt	BBB/F3
Senior non-preferred debt	BBB-
Subordinated Tier 2 debt	BB+

Source: Fitch Ratings

The long-term deposit rating is one notch above Mediobanca's Long-Term Issuer Default Rating (IDR) to reflect full depositor preference in Italy and protection from senior and subordinated debt and equity buffers. The uplift also reflects our expectation that the bank will maintain these buffers, given the need to comply with minimum requirement for own funds and eligible liabilities (MREL).

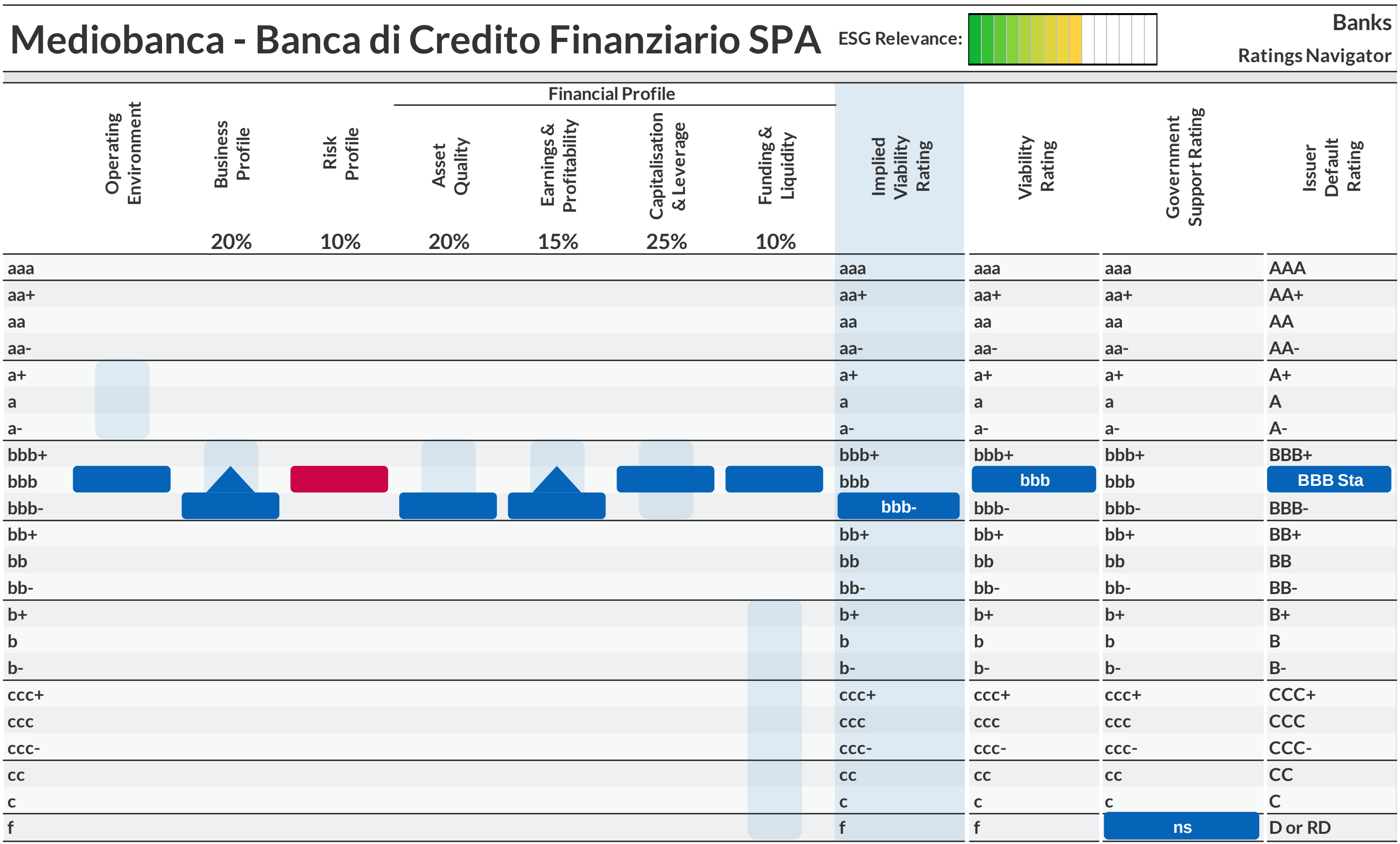
The short-term deposit rating of 'F2' is the baseline option for a long-term deposit rating of 'BBB+' because the funding and liquidity score is not high enough to achieve the higher equivalent short-term rating.

Mediobanca's senior non-preferred debt is rated one notch below the Long-Term IDR to reflect the risk of below-average recoveries arising from the use of senior preferred debt to meet resolution buffer requirements and the combined buffer of additional Tier 1, Tier 2 and senior non-preferred debt being unlikely to exceed 10% of RWAs. For the same reason, the senior preferred debt ratings are in line with the IDRs.

Tier 2 subordinated debt is rated two notches below the VR for loss severity to reflect poor recovery prospects. No notching is applied for incremental non-performance risk because a write-down of the notes will only occur once the point of non-viability is reached and there is no coupon flexibility before non-viability.

Mediobanca's Derivative Counterparty Rating (DCR) is in line with the Long-Term IDR as derivative counterparties in Italy have no preferential legal status over senior debt in liquidation.

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 operating environment score of 'bbb' is below the 'a' implied category score due to the following adjustment reason: sovereign rating (negative)

The funding & liquidity score of 'bbb' is above the 'b and below' category implied score due to the following adjustment reason: non-deposit funding (positive).

Company Summary and Key Qualitative Factors

Business Profile

Specialised Second-Tier Bank with Selected Strong Franchises

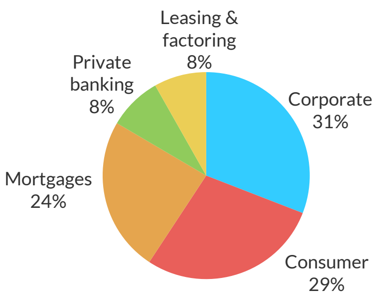
Mediobanca is a specialised Italian bank, with a recognized franchise in CIB, in which it has product leadership especially in equity capital markets in Italy. Despite this, CIB accounts for a moderate 20% of total revenue. Consumer finance contributes about a third, led by its subsidiary Compass Banca, a market leader domestically. Wealth management under Mediobanca Premiere (including contribution from mortgages and lombard loans) accounts for 20%–25% of revenue, but is set to increase in the next years. CIB business is client-driven and increasingly fee-based, focused on mid-corporate and foreign customers, the latter accounting for about 40% of revenue. Contribution of proprietary trading is contained.

The sale of Revalea in 2023, a company specialised in purchasing impaired loans, was in line with the bank's strategy to exit this business and improved asset quality. Earnings are significantly bolstered by Mediobanca's 13% stake in Assicurazioni Generali S.p.A. (Long-Term IDR of A/Stable), contributing for more than 10% of total revenues over the past six years. However, Mediobanca may sell the stake to finance any large strategic acquisitions in core businesses, if opportunities arise.

Wealth-Focused Strategy

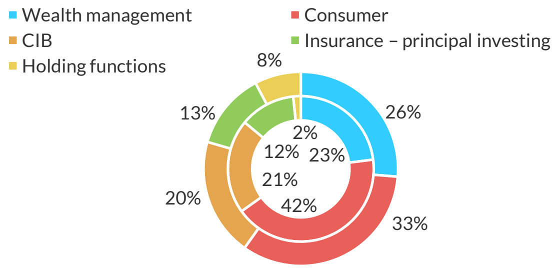
Mediobanca's 2023–2026 strategy focuses on growing its wealth management business to higher-net-worth clients, leveraging its established CIB franchise to serve entrepreneurs and high/ultra-high-net-worth individuals, while reducing its focus on the mass segment. This shift is part of a broader strategy aimed at increasing earnings contribution from capital-light businesses, including in CIB. In consumer finance, the bank's emphasis on digitalisation and buy now pay later (BNPL), aims to enhance its domestic franchise and geographical outreach. Strategic objectives are coherent with Mediobanca's tightened risk appetite, and progress in execution will benefit its business profile. Quantitative targets are broadly within the bank's execution capabilities. However, execution remains vulnerable to more severe economic scenarios than Fitch expects.

Loans to Customers
End-2023



Source: Fitch Ratings

Total Operating Income
Outer: 1H24
Inner: FY20



1H24 = June–December 2023; FY20 = financial year ending 30 June 2020
Source: Fitch Ratings, Mediobanca

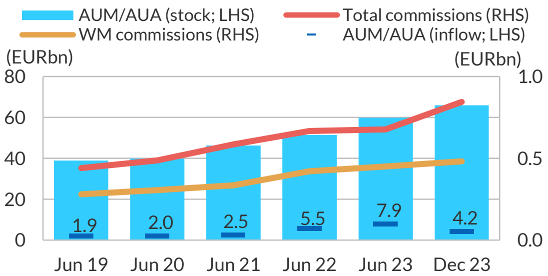
Risk Profile

Prudent Underwriting Amidst Strategic Growth and Diversification

Mediobanca's underwriting standards have remained conservative and broadly unchanged over the past 12 months. Under its new strategic plan, the decision to allocate a maximum of one third of available capital to the CIB division is resulting in a further tightening of credit standards and reducing exposure to leveraged finance. We expect risk appetite to remain quite conservative and the contribution of corporate lending to total lending to reduce because the bank aims to use CIB facilities as ancillary to its wealth-management and private-banking offerings. In consumer finance, Mediobanca aims to expand its core businesses and grow in the BNPL segment, applying its conservative and established underwriting framework, and therefore without heightening its risk appetite. Repositioning on high-end customers should also result in better-quality mortgage lending.

The bank's risk governance is evolving to match its business model expansion, maintaining adequate risk controls and limits. Mediobanca maintains moderate market risk exposure, with well-managed interest, equity, FX, and counterparty risks, employing derivatives and cash flow hedging strategies. The exposure to Italian sovereign risk in the securities portfolio has slightly increased in 2023, but remains low by domestic comparison at about 70% of its CET1 capital, and the sensitivity to Italy's credit spread movements is well-contained.

Growing Wealth Management



AUM: Assets under management; AUA: Assets under administration
Source: Fitch Ratings, Mediobanca

Financial Profile

Asset Quality

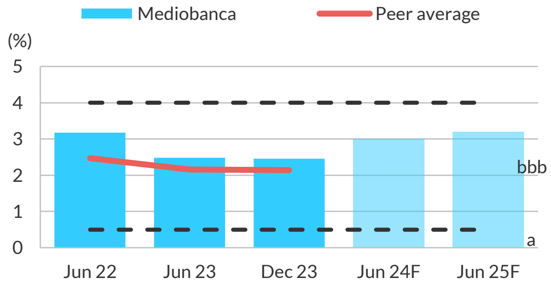
Asset Quality to Moderately Weaken

Mediobanca's asset quality has been resilient to higher interest rates and inflationary pressures. This resulted from tightened underwriting, well-established workout processes and regular disposals of impaired loans. This has led to stable impaired loans over the past 12 months, despite the bank's consumer finance business being riskier than traditional commercial banking. We believe this conservativeness will help limit asset quality deterioration in 2024 and 2025, with the impaired-loans ratio set to increase from 2.5% at end-2023 to slightly above 3% by end-June 2025.

We expect default rates to increase back to pre-pandemic levels, but nevertheless these should remain under control and close to their structural levels. Asset quality will benefit from reduced risks in the corporate portfolio, after the bank disposed of some large impaired exposures, which also contributed to moderately reduce concentrations. The sale of Revalea and its portfolio of about EUR240 million of impaired loans (about 15% of total impaired loans) further reduces risks and gives an extra buffer to accommodate more severe asset quality deterioration than we expect.

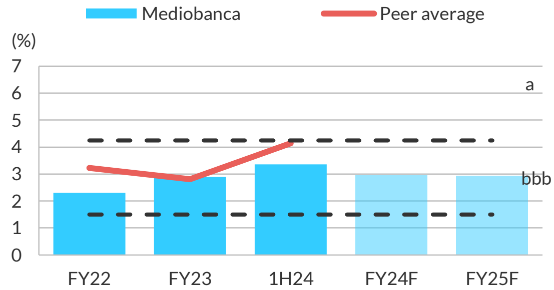
Loan loss allowance coverage increased further in 2023 to above 125% of gross impaired loans, or almost 70% when excluding generic reserves. The bank retains about EUR240 million in reserve overlays, largely allocated to consumer finance, equivalent to close to its annualised 1H24 (June–December 2023) LICs. The bank aims for LICs totalling about 55bp of gross loans for FY24 (financial year ending 30 June 2024), including some usage of overlays, which is coherent with the trend in asset quality and expected performance.

Impaired Loans/Gross Loans



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Resilient Medium-Term Profitability

Mediobanca's operating profit/RWAs of 3.4% for 1H24 (+60bp yoy), was supported by a widening net interest margin (NIM, 2.3%, + 20bp yoy) and broadly stable LICs of about 50bp of gross loans, which benefitted from some overlay releases. These have more than compensated for lower fee income, penalised by subdued CIB, and higher costs.

We expect Mediobanca's profitability to remain resilient in 2024–2025, supported by broadly stable NIM due to continuing repricing on lending, in particular in consumer finance, and gradual reduction in the cost of funding. The latter should be more visible from 2H24 as interest rates eventually start declining. Fee income should benefit from strategic initiatives aimed at expanding wealth management and from the more benign environment for advisory in CIB. We expect cost growth to accompany revenue growth as Mediobanca continues investing. However, its cost/income ratio should only increase moderately.

Capital and Leverage

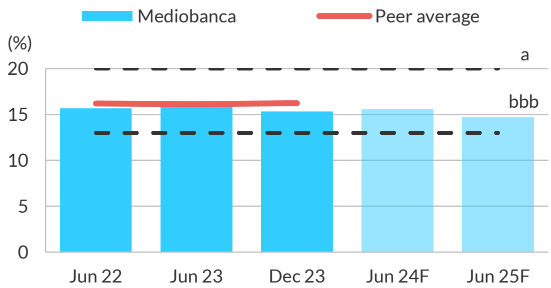
Capital Management and Sound Internal Generation Underpin Resilient Capitalisation

Mediobanca has consistently showcased robust capital ratios. They are generally better than those of domestic peers, and have consistently exceed targets. Its CET1 ratio (end-2023: 15.3%) was significantly above its Supervisory Review and Evaluation Process (SREP) requirement (2024: 8.15%) despite a slight increase in the Pillar 2 requirement. The application of Capital Requirements Regulation Article 49 (so called Danish Compromise) on the Generali stake generates about 100bp benefit on the bank's capital ratios compared with the full deduction method.

Under the new strategic plan, the bank will increase shareholders' remuneration with a share buyback worth EUR1 billion by 2026 (EUR200 million already executed by February 2024), which will add to a dividend payout of 70%, and allocate about 100bp of capital for strategic acquisitions to boost its core businesses.

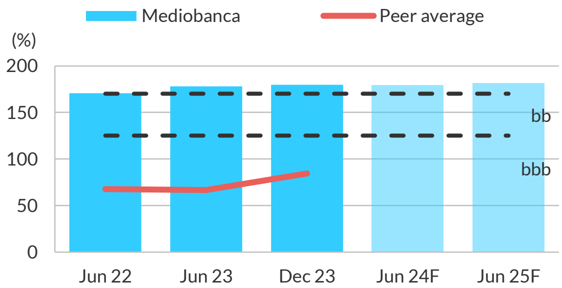
We expect Mediobanca's 2024–2025 CET1 ratio to remain above its medium-term target of 14.5%. This will be aided by RWA optimisation, as Mediobanca anticipates further savings mainly through tightened underwriting in CIB, model updates and implementation of Basel III end-rules. The bank also has further flexibility to manage its RWAs through risk-transfer tools in consumer finance. Unrealised losses in the held-to-collect fixed-income portfolio are small, when compared both domestically and internationally.

CET1 Ratio



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Diversified Funding, Ample Liquidity

Mediobanca's funding is well-diversified, with about 60% of funding coming from individuals, and is largely in the form of deposits. Customer deposits accounted for about 50% of total funding, with a small share of corporate accounts. Private clients are increasingly central to Mediobanca's deposit structure, increasing from 25% to 40% over the past five years. We expect this increase to continue despite the slight fall in deposits over the past few quarters driven by the higher yields offered by alternative asset classes. The bank's deposit beta has outpaced larger domestic banks, but deposit costs have been contained and below the bank's expectations.

The bank is a regular issuer of retail bonds (end-December 2023: EUR7.8 billion), which are largely placed via third-party channels including the Italian post office and key domestic banks. Mediobanca has been actively issuing across various debt classes in the wholesale market over the past 12 months. Debt maturities, including EUR3.4 billion of TLTRO at end-December 2023, are manageable in the light of the bank's sound liquidity, bolstered by a large pool of unencumbered assets and robust liquidity coverage ratios well above regulatory thresholds.

Mediobanca has a MREL ratio of 23.57% of total RWAs, which is 90% covered by own funds and subordinated liabilities. The large surplus that the bank has over its requirement (about 17% of its RWAs at end-December 2023) reduces pressure to access the market in the short term.

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 boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Intesa Sanpaolo S.p.A. (VR: bbb), UniCredit S.p.A. (bbb), Credito Emiliano S.p.A. (bbb), Van Lanschot Kempen N.V. (bbb+), Oddo BHF SCA (bbb+), Quintet Private Bank (Europe) S.A. (bbb), Rothschild Martin Maurel S.C.S. (a-). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report. Financial year-end for Mediobanca Banca di Credito Finanziario S.p.A is 30 June. Latest average uses FY23 data for Intesa Sanpaolo S.p.A., UniCredit S.p.A., Credito Emiliano S.p.A., Van Lanschot Kempen N.V. Latest average does not include Oddo BHF SCA, Quintet Private Bank (Europe) S.A., Rothschild Martin Maurel S.C.S..

Financials

Financial Statements

	30 Dec 23		30 Jun 23	30 Jun 22	30 Jun 21	30 Jun 20
	6 months	6 months	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)	(EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	1,118.0	1,020.4	1,886.4	1,612.1	1,522.3	1,529.1
Net fees and commissions	388.8	354.9	678.0	668.0	585.3	486.7
Other operating income	407.1	371.6	712.7	492.9	619.9	414.7
Total operating income	1,674.2	1,528.1	3,277.1	2,773.0	2,727.5	2,430.5
Operating costs	848.5	774.5	1,557.6	1,411.5	1,341.2	1,230.7
Pre-impairment operating profit	1,065.4	972.4	1,719.5	1,361.5	1,386.3	1,199.8
Loan and other impairment charges	153.2	139.8	229.8	203.3	283.8	402.7
Operating profit	912.2	832.6	1,489.7	1,158.2	1,102.5	797.1
Other non-operating items (net)	-1.7	-1.5	-65.1	3.4	-21.5	17.8
Tax	238.8	218.0	394.8	251.9	271.8	213.5
Net income	912.2	832.6	1,029.8	909.7	809.2	601.4
Other comprehensive income	-194.0	-177.1	-308.3	-498.3	556.2	-221.6
Summary balance sheet						
Assets						
Gross loans	57,101.9	52,119.3	53,617.2	52,810.6	49,127.7	47,820.6
- Of which impaired	1,406.4	1,283.7	1,328.4	1,676.3	1,974.6	2,240.2
Loan loss allowances	1,780.8	1,625.4	1,664.3	1,633.7	1,687.7	1,590.0
Net loans	55,321.1	50,493.9	51,952.9	51,176.9	47,440.0	46,230.6
Interbank	3,244.4	2,961.3	2,163.3	1,281.8	2,741.4	2,393.4
Derivatives	3,458.2	3,156.4	4,198.3	4,193.0	4,312.7	3,744.6
Other securities and earning assets	32,716.6	29,861.8	25,553.0	22,043.3	23,119.0	19,946.5
Total earning assets	94,740.2	86,473.4	83,867.5	78,695.0	77,613.1	72,315.1
Cash and due from banks	5,545.3	5,061.4	4,557.9	8,893.6	2,247.3	3,808.8
Other assets	3,689.2	3,375.5	3,213.6	2,979.8	2,738.3	2,825.8
Total assets	103,983.6	94,910.2	91,639.0	90,568.4	82,598.7	78,949.7
Liabilities						
Customer deposits	31,752.2	28,981.6	30,136.3	30,941.0	26,893.9	25,192.1
Interbank and other short-term funding	18,178.6	16,592.4	13,889.4	17,534.3	13,001.9	13,991.4
Other long-term funding	27,795.3	25,369.9	22,458.3	18,881.9	19,412.3	19,973.9
Trading liabilities and derivatives	11,766.9	10,740.1	11,506.2	10,568.5	10,439.1	8,422.2
Total funding and derivatives	89,493.1	81,684.1	77,990.2	77,925.7	69,747.2	67,579.6
Other liabilities	2,379.9	2,172.2	2,219.6	1,893.9	1,750.4	1,630.0
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	12,110.9	11,054.1	11,429.2	10,748.8	11,101.1	9,740.1
Total liabilities and equity	103,983.8	94,910.4	91,639.0	90,568.4	82,598.7	78,949.7
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.920302	USD1 = EUR0.96274	USD1 = EUR0.841468	USD1 = EUR0.893017

Source: Fitch Ratings, Fitch Solutions, Mediobanca

Key Ratios

	30 Dec 23	30 Jun 23	30 Jun 22	30 Jun 21	30 Jun 20
Ratios (%; annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	3.4	2.9	2.3	2.3	1.7
Net interest income/average earning assets	2.3	2.3	2.0	2.0	2.0
Non-interest expense/gross revenue	50.7	55.2	58.5	54.7	57.9
Net income/average equity	10.9	10.0	8.3	7.7	6.0
Asset quality					
Impaired loans ratio	2.5	2.5	3.2	4.0	4.7
Growth in gross loans	-2.8	1.5	7.5	2.7	6.2
Loan loss allowances/impaired loans	126.2	125.3	97.5	85.5	71.0
Loan impairment charges/average gross loans	0.5	0.4	0.4	0.5	0.8
Capitalisation					
Common equity Tier 1 ratio	15.3	15.9	15.7	16.3	16.1
Fully loaded common equity Tier 1 ratio	15.3	15.9	15.6	16.2	14.5
Tangible common equity/tangible assets	10.6	11.6	10.9	12.4	11.4
Basel leverage ratio	7.8	8.4	8.4	9.1	9.7
Net impaired loans/Common Equity Tier 1 Capital	-4.5	-4.1	0.5	3.7	8.4
Funding and liquidity					
Gross loans/customer deposits	179.8	177.9	170.7	182.7	189.8
Liquidity coverage ratio	155.9	161.1	151.8	158.7	165.0
Customer deposits/total non-equity funding	37.6	42.7	43.5	42.4	40.4
Net stable funding ratio	119.6	119.3	115.5	116.3	109.0

Source Fitch Ratings, Fitch Solutions, Mediobanca

Support Assessment

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

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

No Sovereign Support Factored into the Ratings

We believe that Mediobanca's senior creditors cannot expect to receive extraordinary support from the Italian authorities if the bank is declared non-viable. This is in line with other Italian and eurozone banks, and is because the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism provide a framework for the resolution of eurozone banks that requires senior creditors to participate in losses, if necessary, instead of, or ahead of, a bank receiving government support.

Subsidiaries and Affiliates

The ratings of the senior preferred debt issued by Mediobanca International (Luxembourg) S.A. are equalised with the parent's IDRs, as the debt is unconditionally and irrevocably guaranteed by Mediobanca. Fitch expects the parent to honour this guarantee.

Environmental, Social and Governance Considerations

FitchRatings **Mediobanca - Banca di Credito Finanziario SPA**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Mediobanca - Banca di Credito Finanziario SPA has 5 ESG potential rating drivers				ESG Relevance to Credit Rating
Mediobanca - Banca di Credito Finanziario SPA has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.	key driver	0	issues	5
Governance is minimally relevant to the rating and is not currently a driver.	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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

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 highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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