

Mediobanca - Banca di Credito Finanziario SPA

Key Rating Drivers

Moderate Risk Profile, Specialised Businesses: Mediobanca-Banca di Credito Finanziario SPA's (Mediobanca) ratings reflect a moderate risk profile, underpinning operating profitability and asset quality, which are better than those of domestic peers through the cycle, and a specialised and diversified business model with strong competitive positions in selected businesses.

Domestic Footprint, Strong Franchises: Mediobanca is a leading corporate and investment bank and consumer lender in Italy. The bank is successfully expanding its wealth management franchise, mainly in the affluent and private banking segment, and its customer deposits base domestically, although national market shares are small.

Satisfactory Capital Buffers: Capitalisation is adequate, with a common equity Tier 1 (CET1) ratio of 16.1% at end-September 2021. This is one of the highest ratios among domestic rated banks and Fitch Ratings expects it to remain resilient. Capital encumbrance by unreserved impaired loans is low (3.7% at end-June 2021), and unlike most domestic peers, holdings of Italian government bonds are modest.

Stable Funding and Liquidity: The bank benefits from above-domestic average funding diversification due to its established capital market access. Medium-term funding needs are manageable, and liquidity is underpinned by adequate buffers of unencumbered eligible assets. Its customer deposit base has been growing but is less established than that of the largest domestic banks.

Stable Asset Quality: The impaired loan ratio was 4% at end-September 2021 and reserve coverage high relative to domestic peers. Mediobanca's conservative underwriting has resulted in stable, low levels of impaired loans, despite the challenges posed by the pandemic and little use of moratoriums and state guarantees. We expect stable asset quality also in 2022.

Resilient Profitability: Operating profitability has been more resilient to the low-interest-rate environment than other domestic banks given the diverse business model with increased fee generation from wealth management. We expect average operating profit/risk-weighted assets (RWAs) to be comfortably above 2% over the medium term.

Rating Sensitivities

Sovereign Rating, Operating Environment: 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 the operating environment for Italian banks.

Capital Erosion, Worsened Risk Profile: The ratings could be downgraded if the CET1 ratio falls below 13% without the prospect of a recovery in the short term and with unreserved impaired loans rising substantially above the current low levels on a sustained basis. The ratings could also be downgraded if Mediobanca's risk profile worsened materially, for example if the bank became more aggressive in its underwriting standards, including in riskier asset classes.

Stronger Business, Risk Profiles: A rating upgrade for Mediobanca is contingent on an upgrade of Italy's rating and on much stronger business and risk profiles, including an impaired loan ratio consistently below 3% and operating profit/RWAs of at least 3%. The ratings could also be upgraded if stronger financial metrics were accompanied by stronger capitalisation with a CET1 ratio consistently above 17%.

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
Country Ceiling	AA

Outlooks

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

Applicable Criteria

[Bank Rating Criteria \(November 2021\)](#)

Related Research

[Fitch Upgrades Mediobanca to 'BBB'/Stable on Sovereign Upgrade \(December 2021\)](#)

[Fitch Ratings 2022 Outlook: Western European Banks \(December 2021\)](#)

[Global Economic Outlook \(December 2021\)](#)

[Fitch Upgrades Italy to 'BBB'; Outlook Stable \(December 2021\)](#)

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Debt Rating Classes^a

Rating Level	Rating
Long- and short-term deposits	BBB+/F2
Long- and short-term senior preferred	BBB/F3
Senior non-preferred	BBB-
Subordinated	BB+

^a Including the ratings of the senior debt issued by Mediobanca International (Luxemburg) SA, which are equalised with that of the parent. This is because the debt is unconditionally and irrevocably guaranteed by Mediobanca and Fitch expects the parent to honour this guarantee.
Source: Fitch Ratings

Mediobanca’s long-term deposit rating is one notch above its Long-Term Issuer Default Rating (IDR). This is because there is full depositor preference in Italy and Fitch believes that Mediobanca has sufficient combined buffers of junior and senior debt that result in a lower probability of default on deposits relative to the Long-Term IDR. Fitch also expects that Mediobanca will maintain sufficient buffers to comply with the minimum requirement for own funds and eligible liabilities (MREL).

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

Tier 2 subordinated debt is rated two notches below the Viability Rating (VR) for loss severity to reflect poor recovery prospects.

Ratings Navigator

Mediobanca - Banca di Credito Finanziario SPA							ESG Relevance:	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB Sta
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

VR Adjustments

We consider the bank's measured risk appetite, which has resulted in better operating profitability and asset quality than domestic peers' through cycles, as having a stronger impact in our overall assessment, leading to a VR that is one notch above the implied VR. Over the long term, we expect risk profile to have a positive impact on the bank's earnings and asset quality metrics.

The bank's rigorous underwriting standards for the diverse asset classes, resulting in better asset quality metrics than most domestic peers through several economic cycles is a positive adjustment to the implied asset quality score.

Adequate diversification by funding source and reliable capital market access result in a positive adjustment to the implied funding and liquidity score.

Legend:

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.

Significant Changes

Italy Upgraded on Improved Economic Performance and Prospects

In December 2021 Fitch upgraded Italy's Long-Term IDR by one notch to 'BBB' with a Stable Outlook. Fitch forecasts Italy's GDP to grow by 4.3% in 2022, and for it to reach pre-pandemic levels in 1Q22. High vaccination rates, high levels of private sector savings and the use of EU funds should support growth dynamics. The Italian economy has also proved fairly resilient to global supply chain disruptions and we expect this to continue. We consider these dynamics supportive of Mediobanca's performance and risk profile.

Our assessment of the operating environment for Italian banks has also improved based on improved macro-economic prospects, better-than-expected asset quality performance and subsided pandemic risks. Government support measures in response to the pandemic have largely shielded banks from asset quality deterioration and remaining uncertainties caused by the pandemic have significantly reduced.

The sector's gross impaired loan ratio of around 5% at end-September 2021 was the lowest in over a decade, as banks actively worked out non-performing loans, and inflows of new impaired loans are low. We estimate that outstanding loan moratoriums had fallen to slightly above 3% of total loans to residents in December 2021. Default rates on these loans have been low, easing concerns over lending quality trends in 2022.

Operating in a stronger and more stable operating environment will benefit Mediobanca's risk profile and should result in reduced risks in combination with its conservative underwriting.

Changes to Board Composition, Voting Mechanism

In October 2021 Mediobanca's annual general meeting agreed to remove the statutory provision mandating the presence of senior management representatives in the board of directors, thus aligning its board composition standards to best practices. The general meeting also agreed to amend the voting list mechanism of the board of directors to ensure increased representation for minorities.

Business and Risk Profiles

Established Specialised and Diverse Businesses; Growing Wealth Management

Mediobanca's corporate and investment banking (CIB) activities have a solid franchise domestically owing to established client relationships with large Italian and mid-cap companies, its historical target segments. The bank is active internationally, with non-domestic exposures accounting for about 50% of its CIB loan book. CIB is largely client-driven and fee-based, driven by M&A and equity capital markets activities, in which the bank is a domestic leader. Consumer lender Compass Banca is the main contributor to group revenue. It focuses on personal loans but has leading market shares in all consumer products domestically.

Mediobanca has been successfully developing its asset and wealth management (WM) franchise, mainly in the affluent and private banking segments, both organically and through acquisitions, enriching its product offering and enlarging distribution. The franchise is still modest, with total assets under management and administration (AuM and AuA) of EUR50 billion at end-September 2021 but has proved resilient and supported operating profit. As part of its WM strategy the bank is expanding its customer deposits base in Italy through CheBanca!. Although its national market share remains small, deposits contribute to funding stability.

Mediobanca owns a 12.8% stake in insurer Assicurazioni Generali (A-/Positive). This equity investment contributes materially to Mediobanca's earnings, within the principal investing business, but could be sold to finance large-scale acquisitions to expand its businesses.

Clear Strategic Direction

Strategic objectives to 2023 are coherent with Mediobanca's business and risk profile, and quantitative targets are generally within the bank's execution capabilities. Alongside continued expansion in WM, Mediobanca aims at consolidating its competitive position in the historical CIB and consumer businesses. The execution record on business and financial targets is good.

Mediobanca's appetite for expansion in WM could result in external growth, although we do not expect transformational acquisitions in the near term.

Measured Risk Appetite

Risk governance is sufficiently pervasive and commensurate with the group's business profile and risk appetite. Risk organisation is evolving to keep pace with business expansion as non-financial risks become more relevant for the group. ESG criteria are being integrated in credit and investment management processes.

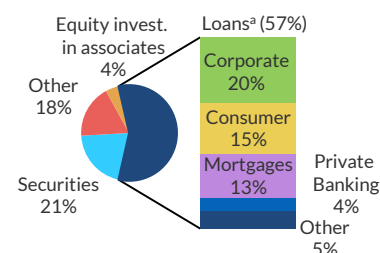
Mediobanca is primarily exposed to credit risk. In retail lending, monitoring is tight and recovery procedures effective. Impaired consumer loans are regularly written off and disposed of, after being fully provided for. Credit standards in CIB have a record of stability, limited appetite for single-name risks and a bias towards investment grade risk. Industry allocation can shift modestly based on the economic cycle but the bank typically lends to companies in well-known and less risky sectors. Within the CIB book, geographic diversification is mainly towards counterparties in stable Western European economies.

Credit standards were temporarily tightened in response to the coronavirus crisis, but have returned to pre-crisis posture during 2021. Loan moratoriums, which the bank granted on a very selective basis and largely confined to the consumer exposure, were a small residual 1% of group loans at end-September 2021 compared to the May 2020 peak of 5%.

Unlike most domestic peers, direct own-sovereign risk is kept modest, with holdings of Italian government bonds representing 46% of CET1 capital at end-June 2021.

Mediobanca's exposure to market risk is average and appropriately hedged. Traded volumes may be material given its capital market activities, but the risk is well managed.

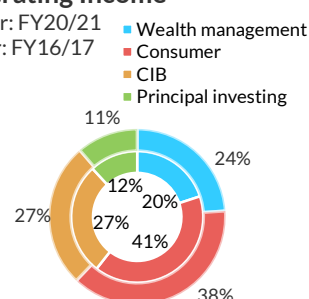
Total Assets



^a Including Repos. Other Includes: Purchased NPLs, Factoring and Leasing
Source: Fitch Ratings, Mediobanca

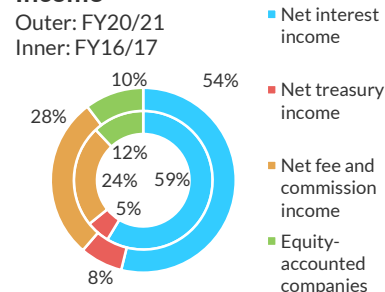
Operating Income^a

Outer: FY20/21
Inner: FY16/17



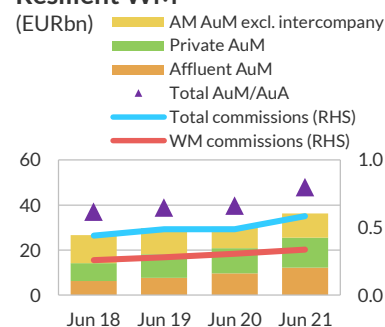
^a excluding non-interest expenses and LICs
Source: Fitch Ratings, Mediobanca

Breakdown of Operating Income



Source: Fitch Ratings, Mediobanca

Resilient WM



Source: Fitch Ratings, Mediobanca

Summary Financials

	30 Jun 21		30 Jun 20	30 Jun 19	30 Jun 18
	Year end (USDm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	1,809	1,522.3	1,529.1	1,510.0	1,454.3
Net fees and commissions	696	585.3	486.7	440.5	456.3
Other operating income	785	660.9	414.7	456.6	475.7
Total operating income	3,290	2,768.5	2,430.5	2,407.1	2,386.3
Operating costs	1,594	1,341.2	1,230.7	1,209.7	1,167.0
Pre-impairment operating profit	1,696	1,427.3	1,199.8	1,197.4	1,219.3
Loan and other impairment charges	337	283.8	402.7	210.5	216.0
Operating profit	1,359	1,143.5	797.1	986.9	1,003.3
Other non-operating items (net)	-74	-62.5	17.8	95.8	92.5
Tax	323	271.8	213.5	256.5	228.1
Net income	962	809.2	601.4	826.2	867.7
Other comprehensive income	661	556.2	-221.6	-145.2	-106.5
Fitch comprehensive income	1,623	1,365.4	379.8	681.0	761.2
Summary balance sheet					
Assets					
Gross loans	58,383	49,127.7	47,820.6	45,038.5	41,623.2
- Of which impaired	2,347	1,974.6	2,240.2	2,017.5	2,231.0
Loan loss allowances	2,006	1,687.7	1,590.0	1,373.5	1,525.3
Net loans	56,378	47,440.0	46,230.6	43,665.0	40,097.9
Interbank	3,258	2,741.4	2,393.4	2,750.5	1,114.5
Derivatives	5,125	4,312.7	3,744.6	3,186.8	3,789.1
Other securities and earning assets	27,475	23,119.0	19,946.5	24,987.0	23,353.4
Total earning assets	92,235	77,613.1	72,315.1	74,589.3	68,354.9
Cash and due from banks	2,671	2,247.3	3,808.8	997.4	1,450.4
Other assets	3,254	2,738.3	2,825.8	2,658.0	2,495.2
Total assets	98,160	82,598.7	78,949.7	78,244.7	72,300.5
Liabilities					
Customer deposits	31,961	26,893.9	25,192.1	22,791.6	20,291.1
Interbank and other short-term funding	15,451	13,001.9	13,991.4	15,067.2	13,292.4
Other long-term funding	23,070	19,412.3	19,973.9	20,134.0	20,608.5
Trading liabilities and derivatives	12,406	10,439.1	8,422.2	8,442.0	6,695.5
Total funding and derivatives	82,888	69,747.2	67,579.6	66,434.8	60,887.5
Other liabilities	2,080	1,750.4	1,630.0	1,911.0	1,680.8
Total equity	13,193	11,101.1	9,740.1	9,898.9	9,732.2
Total liabilities and equity	98,160	82,598.7	78,949.7	78,244.7	72,300.5
Exchange rate		USD1 = EUR0.841468	USD1 = EUR0.893017	USD1 = EUR0.878734	USD1 = EUR0.8633

Source: Fitch Ratings, Fitch Solutions, Mediobanca

Key Ratios

	30 Jun 21	30 Jun 20	30 Jun 19	30 Jun 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.4	1.7	2.1	2.1
Net interest income/average earning assets	2.0	2.0	2.1	2.1
Non-interest expense/gross revenue	53.8	57.9	58.0	55.4
Net income/average equity	7.7	6.0	8.7	9.2
Asset quality				
Impaired loans ratio	4.0	4.7	4.5	5.4
Growth in gross loans	2.7	6.2	8.2	6.4
Loan loss allowances/impaired loans	85.5	71.0	68.1	68.4
Loan impairment charges/average gross loans	0.5	0.8	0.5	0.5
Capitalisation				
Common equity Tier 1 ratio	16.3	16.1	14.1	14.2
Fully loaded common equity Tier 1 ratio	15.1	14.5	12.8	13.1
Tangible common equity/tangible assets	12.4	11.4	11.6	12.6
Basel leverage ratio	9.1	9.7	8.4	8.8
Net impaired loans/common equity Tier 1	3.7	8.4	9.9	10.5
Funding and liquidity				
Gross loans/customer deposits	182.7	189.8	197.6	205.1
Liquidity coverage ratio	158.7	165.0	143.0	186.0
Customer deposits / total non-equity funding	42.4	40.4	36.6	35.7
Net stable funding ratio	116.3	109.0	107.0	108.0
Source: Fitch Ratings, Fitch Solutions, Mediobanca				

Key Financial Metrics – Latest Developments

Stable Asset Quality Expected in 2022

During 2021 there were modest improvements in the asset quality ratios, largely due to the resolution of two sizeable and long-standing, unlikely to pay CIB exposures. There were no significant increases in impaired loan inflows in either the corporate or the consumer book.

September 2021 data confirm the relative stability of the asset quality metrics compared to end-June 2021, with a gross Stage 3 ratio calculated excluding purchased non-performing loans (NPLs) which are estimated at around 3%, entirely covered by specific and collective reserves. When including NPLs purchased by fully-owned MB Credit Solutions the overall picture does not change materially, as reflected in a gross Stage 3 ratio of 4% and 85% reserve coverage.

The bank retains EUR300 million of reserve overlays against possible pandemic-related asset quality deterioration, equivalent to over one year of normalised loan impairment charges (LICs). Management intends to manage potential releases of these overlays conservatively over a multi-year period, depending on the macroeconomic trajectory as well as the specific circumstances of individual borrowers.

Resilient Profitability, Recovering from Pandemic Impacts

Profitability has recovered ahead of initial expectations in 3Q21 owing to growing revenue and business volumes. Consumer loans decreased in 2020, affecting net interest income (NII), but were on their way back to pre-crisis levels during July-December 2021. The loan mix in consumer lending has also improved, boding well for an increase in NII.

The WM business, with its increasing scale, has continued to contribute incrementally to profits throughout the pandemic, and we expect it to remain supportive of profitability given the bank's strong strategic focus on this area.

Throughout 2021 the benign asset quality dynamics and robust loan impairment allowances resulted in a reduction in LICs/gross loans to close to pre-pandemic levels. Cost inflation reflects continued investments in growing the WM franchise, digital and relationship management systems. However, there is a focus on ensuring costs continue to grow less than revenue.

Adequate Capitalisation, Expected to Remain Resilient

The bank's credit profile benefits from sound capital ratios, with ample buffers over requirements. The application of the Danish Compromise to Generali's investment generates a 110bp benefit to reported transitional regulatory ratios, while transitional IFRS9 provisions contributes with an additional 10bp.

Capital encumbrance by unreserved impaired loans remains the lowest level among domestic rated banks and compares well internationally.

Based on recent internal capital generation, the management has revised upwards the dividend pay-out to 70% (from the 50% in the 2023 strategic plan) and continues to ponder annual capital buybacks (of up to 3% of capital, amounting to approximately 65bp). In the medium term, we expect the capital ratios to remain resilient in the absence of M&A and the bank to maintain at least a 13.5% CET1 ratio in the event of external growth.

Diversified Funding, Ample Liquidity

Mediobanca's funding structure is evolving with its business model. Customer deposits (EUR26 billion at end-September 2021) have grown consistently in recent years to about 40% of total funding, and contributions from affluent and private banking clients have been increasing. The rest of the funding is sourced through wholesale channels, including about EUR8.5 billion of TLTRO facilities accounting for about 12% of total funding. Liquidity is backed by about EUR11 billion of unencumbered eligible assets to repo or use for central bank refinancing.

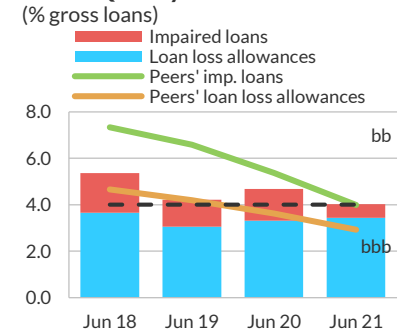
Mediobanca complies with its overall MREL of 21.84% of RWAs (including 2.5% combined buffer requirement) with abundant buffers. Own funds and non-preferred liabilities represented 99% of the requirement at end-September 2021.

Note on Charts

Black dashed lines in the charts represent indicative quantitative ranges and corresponding implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category.

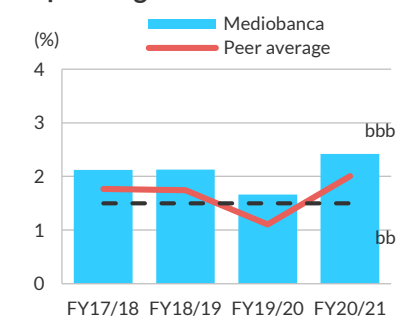
Mediobanca's financial year ends at end-June. Peer average includes UniCredit S.p.A. (VR: 'bbb'), Credito Emiliano S.p.A. (bbb), Intesa Sanpaolo S.p.A. (bbb).

Asset Quality



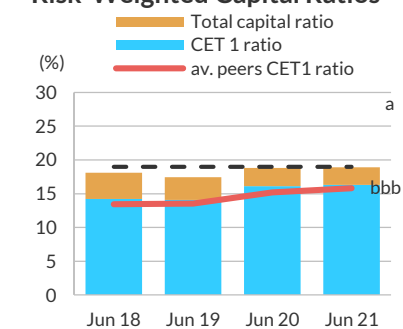
Source: Fitch Ratings, banks

Operating Profit/RWAs



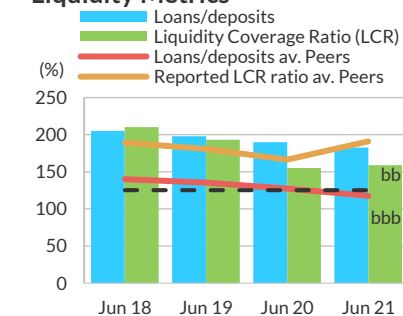
Source: Fitch Ratings, banks

Risk-Weighted Capital Ratios



Source: Fitch Ratings, banks

Liquidity Metrics



Source: Fitch Ratings, banks

Government Support Rating

No Sovereign Support Factored into the Ratings

We believe that Mediobanca's senior creditors cannot rely on extraordinary support from the Italian authorities if the bank is declared non-viable. This is in line with other Italian and eurozone banks. It reflects our belief that the authorities' propensity to support the banking system, and their ability to do so ahead of senior bondholders participating in losses has decreased materially following the implementation of recovery and resolution legislation.

Commercial Banks: Government Support Rating KRDs

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

Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation			Overall ESG Scale			
Mediobanca - Banca di Credito Finanziario SPA has 5 ESG potential rating drivers			key driver	0	issues	5
<ul style="list-style-type: none"> 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. 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)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

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.

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

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.

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale	CREDIT-RELEVANT ESG SCALE
					How relevant are E, S and G issues to the overall credit rating?
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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.
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	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.
Group Structure	3	Organizational structure: appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	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.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2	Irrelevant to the entity rating but relevant to the sector.
				1	Irrelevant to the entity rating and irrelevant to the sector.

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