Novo Banco, S.A.

Ratings

Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
Viability Rating	bbb-
Government Support Rating	ns

Sovereign Risk (Portugal)	
Long-Term Foreign-Currency IDR	A-
Long-Term Local-Currency IDR	A-
Country Ceiling	AAA

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

Key Rating Drivers

Business Profile, Capital Drive Ratings: Novo Banco, S.A.'s ratings reflect the turnaround of the bank's business model, supported by its good retail and commercial franchise in Portugal and satisfactory capital buffers. The capitalisation improved markedly in 2023, due to high earnings retention and good pre-impairment profitability, which benefitted from sound cost efficiency and significantly higher interest rates. The ratings also reflect stable deposit funding and improving asset quality, which nonetheless remains weaker than higher-rated domestic peers'.

Operating Environment Improvements: The Portuguese banking sector has become significantly more resilient to shocks since 2016, reducing its balance-sheet risk and strengthening capitalisation. The profitability has also improved across Portuguese banks given the strong economic recovery, business-model restructuring and the higher interest rates. All this should underpin their resilient performance against macroeconomic pressures in 2024.

Good Franchise in Portugal: Novo Banco is the fourth-largest bank in Portugal, with about a 10% market share of domestic loans. It focuses on providing traditional banking services to domestic corporates and retail customers. The bank's business profile has stabilised due to a successful and almost completed restructuring. Novo Banco has significantly reduced its balance-sheet risks and durably improved profitability, after several loss-making years.

Reduced Risk Appetite: Novo Banco's risk profile has improved significantly since the bank was acquired by a private equity investor, Lone Star Funds, in 2017, as underscored by its materially reduced appetite for higher-risk lending. Novo Banco has a slightly higher share of loans to SMEs and corporates than Portuguese peers, but Fitch Ratings views underwriting standards as adequate and in line with market standards. The interest-rate risks are well-managed, and the bank is well-positioned to manage the expected decline in interest rates.

Higher Problem Assets than Peers: Novo Banco's impaired loans ratio dropped to about 4.4% at end-2023 (end-2017: 32%). This improvement was supported by its Contingent Capital Agreement (CCA) with the Portuguese resolution fund, active management of legacy bad debts and sound underwriting of new loans. Novo Banco's legacy problem assets ratio, including IFRS9 Stage 3 loans and net foreclosed real-estate assets, decreased to 6.1% at end-2023 (end-2021: 10%), but is still higher than most Portuguese peers'.

Profitability Compares Well with Peers: Novo Banco's 2023 operating profit reached about 3.7% of risk-weighted assets (RWAs; 2022: 2.5%), mainly due to higher interest rates, contained loan impairment charges (LICs) and lower restructuring costs. We believe profitability is close to peaking as the loan book has almost fully repriced, and as the increase in cost of deposits accelerated in 2H23. However, earnings should remain strong and well above 2017–2021 levels over 2024-2025.

Satisfactory Capital Buffers: Novo Banco's buffers over regulatory requirements improved significantly in 2023, due to the higher fully-loaded common equity Tier 1 (CET1) ratio (end-2023: 18.2%. The capitalisation benefits from materially stronger profitability, reduced unreserved problem assets (estimated at about 25% of CET1 capital, including restructuring funds) and the dividend ban in place from the CCA, which will expire in 2025.

Stable Funding, Adequate Liquidity: Novo Banco's main funding source is a stable and granular retail deposit base that more than fully funds the loan book, resulting in an adequate loans/deposits ratio of about 90%. The bank uses wholesale funding mainly for compliance with minimum requirements for own funds and eligible liabilities (MREL). Novo Banco is closing the gap with other Portuguese banks regarding its access to wholesale markets, and investor confidence has improved significantly over the past two years.

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Fitch Rates Novo Banco 'BBB-'; Outlook Stable (February 2024)

Portuguese Banks - Peer Review (January 2024)

Portuguese Bank Ratings Unaffected by Sovereign Upgrade (October 2023)

Fitch Upgrades Portugal to 'A-'; Outlook Stable (September 2023)

Western European Banks Outlook 2024 (December 2023)

Analysts

Julien Grandjean
+33 1 44 29 91 41
julien.grandjean@fitchratings.com

Anders Viden
+46 85051 7806
anders.viden@fitchratings.com

Rating Sensitivities

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

Fitch could downgrade the bank's ratings should the CET1 ratio durably decrease to close to 13%. This could come from higher shareholder distributions once the dividend ban is lifted or sustained material deterioration in asset quality and profitability, for instance, from a sharp weakening of the Portuguese operating environment.

We would downgrade the bank if we expect the impaired loans ratio to increase to above 6% and operating profit to drop below 1.5% of RWAs with no credible plan to materially restore these ratios.

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

An upgrade of Novo Banco's ratings would require a further strengthening of its business and risk profiles, leading to further asset-quality improvements to levels that are more in line with higher-rated peers'. The bank's ability to maintain its strong profitability and high capital ratios would also be key to an upgrade. This may be manifested in an impaired loans ratio of below 3%, operating profit consistently above 2.5% of RWAs, and the CET1 ratio remaining materially above 14%. Growing market shares in Portugal and increased business diversification towards recurring non-interest income would also be positive for its ratings.

Other Debt and Issuer Ratings

Rating level	Rating
Deposits	BBB/F3
Senior preferred debt	BBB-/F3

Source: Fitch Ratings

The long-term deposit rating is one notch above Novo Banco's Long-Term Issuer Default Rating (IDR), reflecting full depositor preference in Portugal and the structure of the bank's resolution buffer, which includes senior preferred debt. The short-term deposit rating of 'F3' is the lower of two options mapping to a long-term deposit rating of 'BBB', driven by Novo Banco's funding and liquidity score of 'bbb-'.

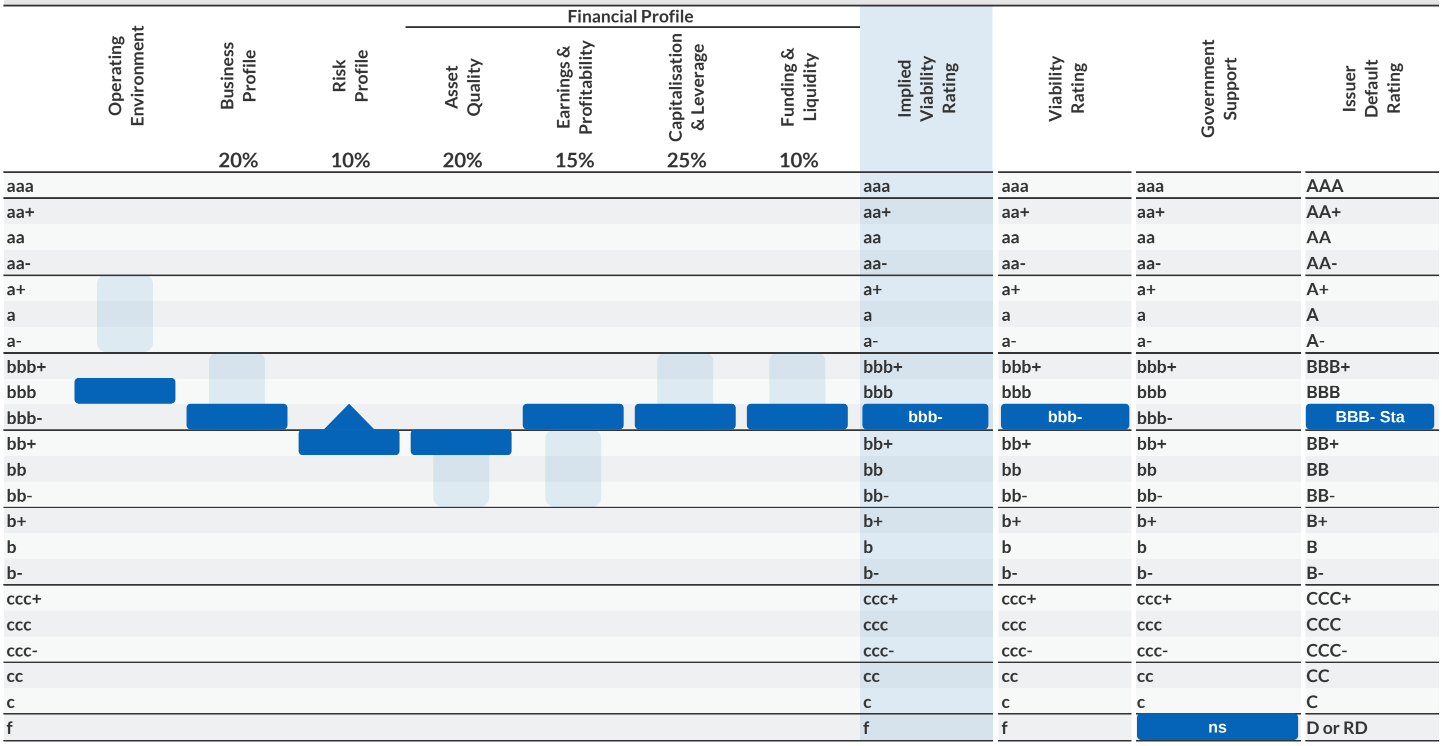
The senior preferred debt ratings are aligned with the bank's IDRs because we expect that the bank will meet its MREL with a combination of senior preferred and junior instruments. We do not expect the buffer of senior non-preferred and more junior debt to exceed 10% of RWAs.

Ratings Navigator

Novo Banco, S.A.

ESG Relevance:

Banks
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' category-implied score, due to the following adjustment reason: level and growth of credit (negative).

The earnings and profitability score of 'bbb-' is above the 'bb' category-implied score, due to the following adjustment reason: historical and future metrics (positive).

Company Summary and Key Qualitative Factors

Business Profile

Retail Bank Focused on SMEs

Novo Banco is the bank that emerged following the resolution of Banco Espirito Santo, S.A. (BES), as decided by the Portuguese authorities in August 2014. After a lengthy sale process, which started in December 2014, Lone Star was selected to buy Novo Banco in March 2017. Novo Banco's restructuring process is now completed, and its franchise is no longer affected by the lengthy turnaround. As the business profile is now stabilised and simplified, the management intends to start a new commercial development phase for the bank.

Novo Banco's business profile is geared towards retail and commercial banking. It focuses on providing banking products and services to individuals, SMEs and corporates in Portugal. The bank has a higher market share with corporates (14.5%), and a better franchise with SMEs, than in residential mortgage lending (9%), and is aiming to grow in this latter segment carefully. The bank also offers ancillary products in insurance, payment transactions, asset management, and trade finance. Revenue diversification into fee-generating businesses remains limited, as for other Portuguese banks.

Governance Supported Good Execution of Restructuring Plan

The private equity firm Lone Star Funds is the majority shareholder and owns 75% of the bank. The Portuguese resolution fund used to own the remaining 25%, but its stake has decreased to 13% at end-2023. This is due to the conversion of deferred tax assets (DTAs) into equity shares owned by the Portuguese government, as only the resolution fund is being diluted. These DTAs relate to tax losses carried forward and are under a Special Regime approved by law, which Novo Banco adhered to during 2014.

Over recent years, the shareholders appointed new members to the supervisory board and Board of Directors. These include people with wide international experience in banking and finance, complemented with people with extensive knowledge of the Portuguese market. This combination has resulted in a strong management team, with a very clear strategy and good execution. The bank has recently completed its transformation plan, and we expect the new medium-term plan to be based on maintaining a solid profitability, while finalising the asset quality clean-up.

Risk Profile

Tightened Underwriting Standards

Novo Banco significantly tightened its risk profile and improved its risk controls function compared to that of BES. The Portuguese operations now represent the main area of credit risk, which accounted for slightly more than 90% of RWAs at end-2023. About 54% of the bank's loan portfolio was to corporates at end-2023, while the rest splits between residential mortgage loans (40%) and consumer loans (6%). While Novo Banco has a proportionally higher exposure to companies than its Portuguese peers, its exposure is reasonably diversified by sectors, in spite of a commercial focus on six strategic sectors. We view Novo Banco's origination policy in mortgage lending as more conservative compared to Portuguese peers, as only 1% of its residential mortgage loan portfolio in Portugal had a loans-to-value (LTV) ratio of above 85%, while the average LTV on the stock was below 50% at end-2023.

Controlled Interest Rate Risk; Legacy Assets Drive Market Risk

The interest-rate risk in Novo Banco's banking book is the main source of market risk, and is controlled using gap and duration analysis. Novo Banco, as per its Portuguese peers, maintains a large proportion of its assets at floating rates, which leaves its revenue exposed to interest-rate volatility. However, we believe the bank has a lower appetite for interest-rate risk than most domestic peers, as its mortgage book is hedged through EUR7 billion of interest-rate swaps, which significantly limit earnings volatility. The bank estimates that rates decreasing by 100bp would reduce net interest income (NII) by a moderate 5%.

Novo Banco's exposure to valuation risks from legacy problem assets has been decreasing gradually, through active management of the stock. We calculate it represents about 18% of CET1 capital at end-2023. Net repossessed real estate assets decreased significantly to about EUR460 million at end-2023 (end-2017: EUR2.5 billion), of which about 60% of the remainder were lands. Holdings in fair-value corporate restructuring funds fell significantly to EUR0.2 billion at end-2023 (end-2017: EUR1 billion), notably following a large sale in 2022. These holdings mostly relate to problematic corporate debt transferred jointly with other Portuguese banks to be managed by independent debt-restructuring professionals. The bank applies a conservative haircut of about 50% on the restructuring funds' net asset value, which reduces valuation risk.

Financial Profile

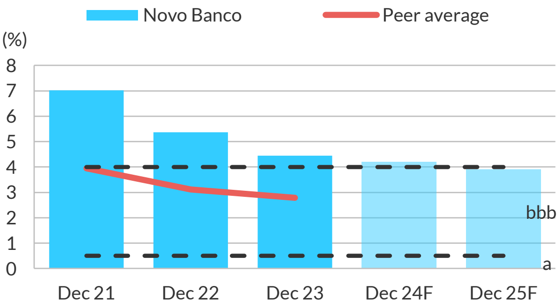
Asset Quality

Continued Reduction in Impaired Loans Ratio Despite Economic Challenges

The reduction in Novo Banco's stock of impaired loans continued in 2023, despite inflationary pressure and higher interest rates, to which borrowers in Portugal are particularly sensitive as most loans carry floating rates. New impaired loans were still limited in 2023, illustrating Novo Banco's sound underwriting criteria and borrowers' resilience. We believe that the higher impaired loans ratio than most Portuguese peers is partly explained by the lengthy work-out of assets under CCA. This is mitigated significantly by the high coverage ratio of 84%.

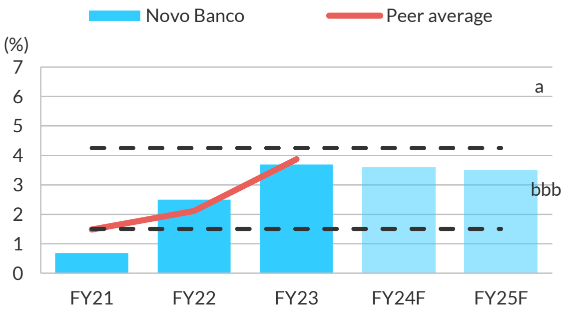
In 2024, recovery efforts will aim to outweigh new defaults from financially weaker households vulnerable to the economic slowdown, as long as the unemployment rate does not deviate from our current expectations. We believe that households' financial situations in Portugal are resilient enough to absorb the recent increase in interest rates on mortgage loans. However, further material rate hikes, which are currently not our baseline expectation, or a prolonged period of high rates and muted economic activity would likely pressure asset quality. Despite the slower economy, we still expect GDP to grow in 2024 and 2025, which should support SMEs' credit quality. In addition to that, corporate profits have increased in Portugal as corporates have been able to pass inflation costs to consumers, and Novo Banco's corporate loans book is fairly well diversified by sector. We expect the impaired loans ratio to continue to decrease as the bank intends to finish the clean-up of its balance sheet, but at a slower rate, so as to reach its structural impaired loans ratio of below 4% in 2025–2026.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Higher Rates, Reduced Restructuring Costs Underpin Profitability

Novo Banco's profitability compares favourably with most other mid-sized southern European peers. The profitability benefits from its good franchise in Portugal on retail and corporate clients, sound cost-efficiency and a balance sheet structure that was well positioned to benefit from higher rates. The bank's recurring earnings generation has improved steadily since 2017. As the risks coming from legacy problem assets have significantly reduced, we no longer expect restructuring costs to weaken profitability.

Novo Banco's profitability increased significantly in 2023, mainly due to higher NII, which nearly doubled yoy as most of the loan book is indexed to euro rates, and deposits betas remained low. We expect NII to reduce slightly in 2024, as the cost of deposits increases, although this will be mitigated by further repricing of mortgage loans and higher income from the securities portfolio. The benefits from active hedging strategies should also absorb part of the negative impact potential decrease in Euribor rates. Therefore, we expect the operating profit/RWAs ratio to remain above 3% in 2024–2025.

The cost/income ratio is low at about 37%, driven by higher revenue and a lean organisational structure. LICs increased to about 43bp of gross loans (as calculated by Fitch) due to a prudent provisioning approach as asset quality metrics improved.

Capital and Leverage

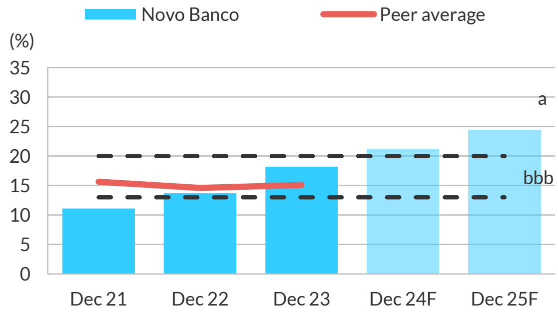
Strong Internal Capital Generation in 2023

Novo Banco's capital ratios should provide the bank with an adequate buffer over its current capital requirements of about 9.5% for the CET1 ratio, and 14.3% for the total capital ratio. This includes 50bp of O-SII buffer starting 1st July 2025. The bank's organic capital generation was subdued until 2021 due to high restructuring costs, but the capital base started to grow again in 2022. Novo Banco generated slightly more than 500bp of fully-loaded CET1 capital in

2023 on the back of strong profitability metrics and high earnings retention. We expect Novo Banco's CET1 ratio to continue to increase in 2024–2025, to above 20%, as the bank's capital distribution remains constrained. Novo Banco's strong regulatory Basel leverage ratio (end-2023: 7.9%) partly reflects the bank's high RWA density (end-2023: 47%).

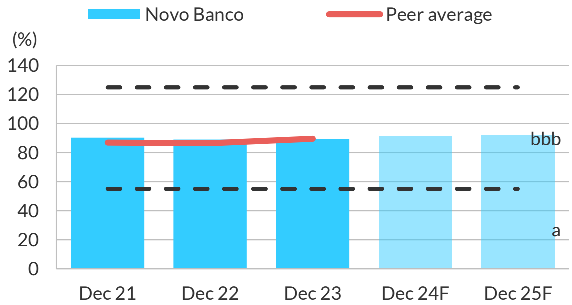
Novo Banco's sound internal capital generation will support its ability to meet its 1 January 2026 MREL binding target of 23.47% of the total risk exposure amount (TREA), plus the combined buffer requirement. No subordination requirements have been applied to Novo Banco. Hence the build-up of its MREL stock occurred through senior preferred debt issuance for funding cost-optimisation reasons.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Stable Funding and Liquidity

Novo Banco's funding profile is underpinned by large and stable customer deposits, which accounted for about 78% of total funding at end-2023. 54% of the bank's deposits were covered by the deposit guarantee fund, which is adequate but lower than peers and reflects the bank's focus on larger SMEs and corporates. Customer deposit volumes were stable in 2023, and, similar to peers, the cost of these continued to be low, although the deposit price offering has been increasing lately.

The funding is complemented with repos (about 14% of total funding), ECB funding (about 3%) and wholesale funding (about 7%). The bank has repaid most of its ECB funding (TLTRO) and the remaining portion stood at EUR1 billion at end-2023. The bank has improved its access to the unsecured wholesale market funding recently, as evidenced by the issue of Tier 2 notes in 2023.

Novo Banco's liquidity position is adequate. The bank's high-quality liquid assets totalled EUR9.1 billion at end-2023 (about 20% of total assets). Its liquidity buffer (including other collateral such as retained covered bonds) reached EUR13.3 billion of total ECB-eligible assets, which comfortably covers all wholesale and central bank funding maturities.

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 recapitalizations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process. Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Banco Comercial Portugues, S.A. (VR: bbb-), Caixa Geral de Depositos, S.A. (bbb), Santander Totta, SGPS, S.A. (bbb), Banco BPI, S.A. (bbb-), Banco BPM S.p.A. (bbb-), BPER Banca S.p.A. (bbb-), Banca Popolare di Sondrio - Societa per Azioni (bb+), Ibercaja Banco, S.A. (bbb-), ABANCA Corporacion Bancaria, S.A. (bbb-). Latest average uses 9M23 data for Banco Comercial Portugues, S.A., Caixa Geral de Depositos, S.A., Santander Totta, SGPS, S.A., Ibercaja Banco, S.A.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end (USDm) Unaudited	Year end (EURm) Unaudited	year end (EURm) audited - unqualified	Year end (EURm) audited - unqualified	year end (EURm) audited - unqualified
Summary income statement					
Net interest and dividend income	1,254	1,144.7	630.5	584.5	571.6
Net fees and commissions	322	294.3	290.2	278.2	266.5
Other operating income	51	46.7	213.0	111.0	-484.7
Total operating income	1,628	1,485.7	1,133.7	973.7	353.4
Operating costs	597	545.3	489.6	448.9	466.9
Pre-impairment operating profit	1,030	940.4	644.1	524.8	-113.5
Loan and other impairment charges	205	187.0	111.2	353.0	1,191.5
Operating profit	825	753.4	532.9	171.8	-1,305.0
Other non-operating items (net)	1	0.6	-0.3	5.2	-33.3
Tax	6	5.8	-53.3	-15.2	1.1
Net income	820	748.2	585.9	192.2	-1,339.4
Other comprehensive income	n.a.	n.a.	-189.0	-222.1	-121.1
Fitch comprehensive income	820	748.2	396.9	-29.9	-1,460.5
Summary balance sheet					
Assets					
Gross loans	27,926	25,489.1	25,617.4	24,898.6	25,154.1
- Of which impaired	1,241	1,133.0	1,376.4	1,748.8	2,183.4
Loan loss allowances	1,046	955.0	1,066.4	1,247.9	1,599.8
Net loans	26,880	24,534.1	24,551.0	23,650.7	23,554.3
Interbank	52	47.9	43.5	50.5	113.8
Derivatives	657	599.6	314.5	313.5	1,121.0
Other securities and earning assets	10,871	9,922.6	11,483.7	11,193.6	12,051.7
Total earning assets	38,460	35,104.2	36,392.7	35,208.3	36,840.8
Cash and due from banks	6,428	5,867.2	6,599.1	5,871.5	2,695.5
Other assets	2,771	2,529.4	3,003.2	3,538.7	4,859.3
Total assets	47,659	43,500.8	45,995.0	44,618.5	44,395.6
Liabilities					
Customer deposits	31,354	28,617.9	28,826.9	27,582.1	26,322.1
Interbank and other short-term funding	7,792	7,111.7	10,156.0	10,745.1	10,102.9
Other long-term funding	1,213	1,107.6	1,629.0	1,514.2	1,017.9
Trading liabilities and derivatives	315	287.4	219.0	350.5	627.3
Total funding and derivatives	40,674	37,124.6	40,830.9	40,191.9	38,070.2
Other liabilities	2,141	1,953.8	1,652.5	1,277.1	3,178.8
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	4,845	4,422.4	3,511.6	3,149.5	3,146.6
Total liabilities and equity	47,659	43,500.8	45,995.0	44,618.5	44,395.6
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Source: Fitch Ratings, Fitch Solution, Novo Banco

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.7	2.5	0.7	-4.9
Net interest income/average earning assets	3.1	1.7	1.6	1.5
Non-interest expense/gross revenue	36.9	43.5	46.3	135.7
Net income/average equity	18.9	17.8	6.0	-37.8
Asset quality				
Impaired loans ratio	4.4	5.4	7.0	8.7
Growth in gross loans	-0.5	2.9	-1.0	-6.8
Loan loss allowances/impaired loans	84.3	77.5	71.4	73.3
Loan impairment charges/average gross loans	0.4	0.1	0.6	2.0
Capitalisation				
Common equity Tier 1 ratio	n.a	13.7	11.1	10.9
Fully loaded common equity Tier 1 ratio	18.2	13.1	10.1	9.5
Tangible common equity/tangible assets	8.1	5.6	6.9	7.0
Basel leverage ratio	7.9	6.1	6.0	6.2
Net impaired loans/common equity Tier 1 capital	4.8	10.6	18.1	20.1
Funding and liquidity				
Gross loans/customer deposits	89.1	88.9	90.3	95.6
Liquidity coverage ratio	163.0	210.0	182.0	144.0
Customer deposits/total non-equity funding	77.7	71.0	69.2	70.3
Net stable funding ratio	118.0	113.0	117.0	113.0

Source: Fitch Ratings, Fitch Solution, Novo Banco

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bbb+ or bbb
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	A-/ Stable
Size of banking system	Negative
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	Neutral
Liability structure	Neutral
Ownership	Neutral

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

Novo Banco's 'no support' Government Support Rating (GSR) reflects our view that, although external extraordinary sovereign support is possible, it cannot be relied upon. Senior creditors can no longer expect to receive full extraordinary support from the government in the event that the bank becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that requires senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **Novo Banco, S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Novo Banco, S.A. has 5 ESG potential rating drivers

- Novo Banco, S.A. 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.

			ESG Relevance to Credit Rating
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) 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 Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

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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