FitchRatings



# Abu Dhabi Commercial Bank PJSC

## Key Rating Drivers

**Sovereign Support Driven IDRs:** Abu Dhabi Commercial Bank PJSC's (ADCB) Issuer Default Ratings (IDRs) are driven by its 'A+' Support Rating Floor (SRF), reflecting an extremely high probability of sovereign support available to the bank from both the UAE (AA-/Stable) and Abu Dhabi (AA/Stable) authorities. This reflects the authorities' strong ability in, and record of, supporting the banking system, if needed, and also their close ties with a number of banks.

**Leading Domestic Franchise**: ADCB's Viability Rating (VR) reflects its strong domestic franchise (end-3Q21: 13% of sector assets; 14% of loans), which was strengthened by the merger with Union National Bank (UNB) and acquisition of Al Hilal Bank in 2019, and good funding and liquidity profile. It also reflects high, but falling, exposures to risky sectors and weaker-than-peers asset quality.

**Stabilising Asset Quality:** ADCB's asset quality is weaker than that of peers. Reported Stage 3 loans accounted for 5.8% of gross loans (excluding bank loans) at end-2021, down from 6.3% at end-2020 primarily due to large write-offs (equivalent to 1.6% of end-2021 loans). However, Fitch Ratings calculates that ADCB's impaired loans (including Stage 3 and loans purchased or originated credit impaired, POCI) would be a higher 7.4% of gross loans (end-2020: 8.0%).

Fitch expects loan quality to be stable in 2022 given the improving economic outlook and only modest level of remaining deferred loans (0.3% of loans).

**Improving Profitability:** ADCB's operating profit-to-risk-weighted assets (RWAs) ratio is weaker than that of most peers but improved slightly to 1.6% in 2021, from 1.3% in 2020, primarily owing to lower impairment charges and higher fee and commission income. We expect profitability to gradually improve with economic recovery and rising rates. ADCB's cost efficiency could improve further as merger-related synergies are fully realised.

**Only Adequate Capitalisation:** ADCB's common equity Tier 1 (CET1) ratio fell to 12.9% at end-2021 (end-2020: 13.3%) primarily due to regulatory changes in RWAs. Capitalisation is only adequate considering the bank's weaker-than-peers profitability, high credit concentrations, and moderate share of unreserved problem loans. The Tier 1 ratio (14.8%) is supported by additional Tier 1 capital, entirely issued to the Abu Dhabi government.

**Funding and Liquidity a strength:** The bank is largely funded by customer deposits (end-2021: 74% of total funding), a high share of which is low-cost current and savings accounts (58%), reflecting its strong franchise. Government and public-sector deposits (41% of total) also underpin the funding base. Liquid assets are comfortable and accounted for about 27% of total assets at end-2021, covering 45% of customer deposits. The liquidity coverage ratio was 124% at end-2021, above minimum requirements.

## Rating Sensitivities

**IDRs:** ADCB's IDRs are sensitive to a change in Fitch's view of the ability and propensity of the UAE and Abu Dhabi authorities to support the banking system or the bank.

**VR**: A material deterioration in ADCB's asset-quality metrics or a prolonged weakening in operating profitability (below 1.5% of RWAs) would likely lead to a downgrade of the VR. Continued material reductions in credit concentrations, by sector and borrower, could improve our assessment of risk appetite and bring upside potential to the VR, in particular if this was accompanied by improvements in the bank's asset quality.

## Ratings

| | |
|---|---|
| **Foreign Currency** | |
| Long-Term IDR | A+ |
| Short-Term IDR | F1 |
| | |
| Viability Rating | bb+ |
| | |
| Support Rating | 1 |
| Support Rating Floor | A+ |
| | |
| **Sovereign Risk (Abu Dhabi/UAE)** | |
| Long-Term Foreign-Currency IDR | AA/AA- |
| Long-Term Local-Currency IDR | AA/AA- |
| 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 (November 2021)

## Related Research

Fitch Affirms Abu Dhabi Commercial Bank at 'A+'; Outlook Stable (February 2022)

Fitch Affirms the United Arab Emirates at 'AA-'; Outlook Stable (November 2021)

Fitch Affirms Abu Dhabi at 'AA'; Outlook Stable (October 2021)

Fitch Ratings 2022 Outlook: Middle East Banks (December 2021)

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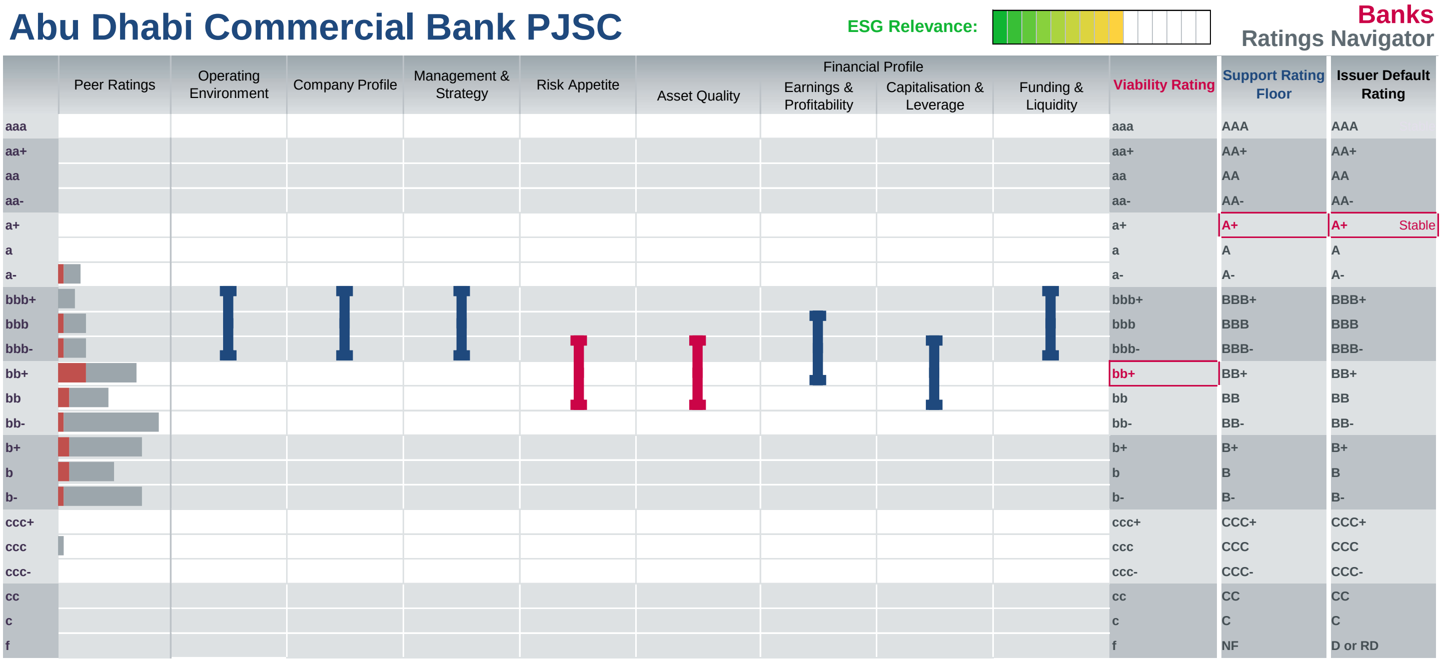
## Ratings Navigator




## Sovereign Support Assessment

Fitch's assessment of potential state support for ADCB, if needed, factors in the sovereigns' strong ability to support the banking system, underpinned by solid net external asset positions, still strong fiscal metrics and recurring hydrocarbon revenues. Fitch expects the propensity of the sovereigns to support the banking sector to remain high given the very strong, timely and predictable record of supporting domestic banks. ADCB's 'A+' SRF is at the Abu Dhabi D-SIB SRF level - one notch higher than the UAE banks' country Domestic Systemically Important (D-SIB) SRF (A) given Abu Dhabi's superior financial flexibility - reflecting its systemic importance and government ownership.

| Support Rating Floor | | | Value |
|---|---|---|---|
| Typical D-SIB SRF for sovereign's rating level (assuming high propensity) | | | A or A- |
| Actual country D-SIB SRF | | | A+ |
| **Support Rating Floor:** | | | **A+** |
| **Support Factors** | **Positive** | **Neutral** | **Negative** |
| Sovereign ability to support system | | | |
| Size of banking system relative to economy | | | ✓ |
| Size of potential problem | | ✓ | |
| Structure of banking system | | | ✓ |
| Liability structure of banking system | ✓ | | |
| Sovereign financial flexibility (for rating level) | ✓ | | |
| Sovereign propensity to support system | | | |
| Resolution legislation with senior debt bail-in | | | ✓ |
| Track record of banking sector support | ✓ | | |
| Government statements of support | ✓ | | |
| Sovereign propensity to support bank | | | |
| Systemic importance | | ✓ | |
| Liability structure of bank | | ✓ | |
| Ownership | ✓ | | |
| Specifics of bank failure | | ✓ | |

### Bar Chart Legend

Vertical bars – VR range of Rating Factor
Bar Colours – Influence on final VR
- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook
- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

# Significant Changes

## Risks Contained for UAE Banks' Credit Profiles

Pressures on UAE banks' credit profiles are easing as the operating environment continues to recover. The general business and operating environment for banks was reasonable in 2021 and Fitch expects it to be broadly the same in 2022. Operating conditions for banks should remain adequate as economic growth will continue to present business, revenue and growth opportunities. We expect real GDP growth to rise to 5.8% in 2022 from 1.8% in 2021, supported by strong real non-oil GDP growth of 5.7% (2021: 3.5%).

Nevertheless, banking sector credit growth will remain lacklustre at 3% in 2022 (2% estimated for 2021) due to weak demand, pandemic-related uncertainties and tighter underwriting standards.

## Asset-Quality Deterioration to Remain Manageable

The sector's Stage 3 loans ratio increased sharply in 2020 due to the pandemic and high concentration risks at UAE banks. The extension of the UAE Central Bank (CBUAE) loan deferral scheme to end-1H22 will continue to cloud transparency of asset quality reporting and leaves uncertainties around the trajectory of loan quality metrics once debt-relief measures end. Nevertheless, the share of loan deferrals in UAE banks' loan books has fallen to moderate levels.

Banks remain highly exposed to the troubled real estate and construction sectors (20% of total domestic loans at end-1H21) and to sectors vulnerable to the pandemic fallout, such as services, transport, retail and hospitality. We expect defaults to rise as government support measures wane. Nevertheless, Fitch believes any deterioration in asset quality will be reasonably contained due to the build-up of provisions in 2020 and 2021.

## Modest Recovery Expected in the Real Estate Sector

Residential real estate prices bottomed out in 2021 and we expect them to recover moderately in 2022, supported by an uptick in business activity. However, office spaces and commercial real estate will remain under pressure as demand will not be sufficient to absorb the excess supply.

## Profitability Unlikely to Recover to Pre-Pandemic Levels Before 2023

Profitability continues to be pressured and Fitch does not expect it to return to pre-pandemic levels before 2023. The agency's view is underpinned by lower-for-longer interest rates, asset-quality risks and tepid credit demand. In addition, we expect growth to be driven by lower-yielding government and related exposures which will constrain revenue generation. Lower generation of loan impairment charges (LICs) and cost-cutting measures will mitigate pressures on revenue.

## Capitalisation to Remain Adequate

Capital ratios have been stable owing to modest loan growth and reasonable pre-impairment operating profitability. Fitch expects the sector-average CET1 ratio to remain adequate at about 14% in 2022.

## Strong Funding and Liquidity

Funding and liquidity are strong and we expect this to continue, supported by modest growth and still subdued financing opportunities. Deposits have been behaviourally stable, although contractually short-term. High deposit concentration remains a significant risk. Liquidity will continue to be supported by large government deposits driven by the sovereign's solid net external assets position, still strong fiscal metrics and recurring hydrocarbon revenue.

## Company Summary and Key Qualitative Assessment Factors

### Abu Dhabi D-SIB; Strong Domestic Franchise

ADCB's total assets accounted for about 13% of UAE banking system assets at end-3Q21 and the bank is recognised as a D-SIB by the CBUAE. The bank's market shares increased by about 4pp in 2019 as a result of the merger with UNB and acquisition of Al- Hilal Bank (AHB; an Islamic bank). The merger was completed ahead of schedule in 2Q20. Abu Dhabi Investment Council, the government's investment arm, owns 60.2% of ADCB, with the balance in free float (25% owned domestically and 15% by foreign shareholders).

ADCB has a universal business model, with a particularly strong wholesale banking franchise, and reasonable revenue diversification. Revenues are derived mainly from interest income (73% of revenues in 2021), with non-interest income primarily made up of net fees and commissions. Islamic financing assets made up 15% of group loans at end-2021 and its treasury, risk and underwriting policies are largely centralised at group level.

### Stable Management; UAE-Centric Strategy

ADCB's management team is experienced and has a deep understanding of the UAE market. ADCB's CEO Ala'a Eraiqat has been in position since 2009 and the senior management was largely unchanged after the merger. The board of directors consists of 10 members, with five directors also holding management positions in ADIC and Mubadala (an Abu Dhabi wealth fund). ADCB reports a high share of related party lending (21% of loans at end-2021), which likely primarily reflects its government ownership and relationships with GREs.

ADCB aims to maintain its focus on the UAE, where over 95% of operating income was originated in 2021, and is therefore winding down foreign operations, primarily in Asia. The exception is Egypt, where the management plans to expand operations given strong growth potential. The management is targeting trade finance fee income to support non-interest income.

Cost optimisation is another strategic priority for the bank, in particular from realized synergies from the merger. The pandemic has put pressure on the bank's financial metrics, as for other banks, as have large problem loans recorded since 2020. However, we expect a gradual improvement in strategy execution and performance with the economic recovery and a higher interest-rate environment.

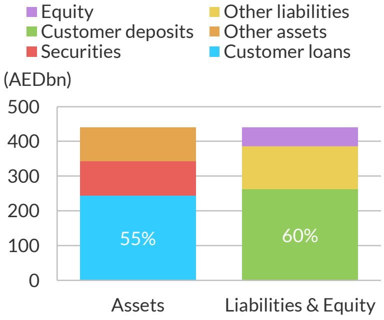
### High, Albeit Falling, Real Estate Exposure

Concentrations in ADCB's loan book, by sector and borrower, have decreased since the merger, but remain high and, together with high related party lending, weigh on our assessment of the bank's risk profile. In particular, the share of real estate lending has fallen to 24% of gross loans at end-2021 (loan/value: 81%), from 39% at end-2018. This has largely been replaced by increased government lending (26% at end-2021; 20% at end-2018) which should support asset quality. The largest 20 funded exposures accounted for 28% of total gross loans (1.7x CET1) at end-2021, down from 37% at end-2018 (pre-merger).

Nevertheless, ADCB's largest exposures have shown fairly slow amortisation in recent years, and therefore reported loan quality metrics may not fully capture the actual level of problematic loans, while also creating loan seasoning risks, in our view. ADCB mainly focuses on corporate loans in wholesale banking (59% of net loans at end-2021), with consumer banking (41%) being comprised of wealth management (corporate and private accounts) as well as retail loans. Personal loans (largely personal and auto loans) made up 21% of loans at end-2021, and include the acquisition of a mortgage portfolio amounting to AED1.1billion from Abu Dhabi Finance in 2Q21.

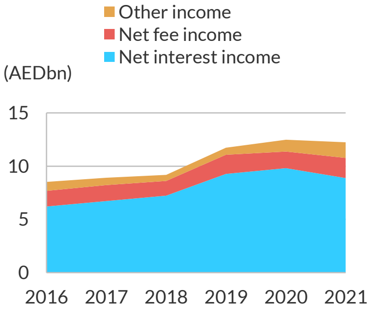
Gross loans grew by 2% in 2021, reflecting muted demand and large corporate repayments, in particular in the real estate segment. We expect ADCB's growth in 2022 to be broadly in line with the market, which should be comfortably funded organically. Interest rate risk is reasonable and a 25bp upward movement in interest rates would result in a AED116 million increase in ADCB's net interest income (NII) at end-2021 (1% of 2021 NII). FX risks are limited owing to the dirham's peg to the US dollar. The bank's securities portfolio, held for liquidity management, made up 22% of total assets at end-2021; 77% of the bond portfolio was rated 'A-' or higher, and 70% were from UAE or GCC issuers.

### Balance Sheet, End-2021




Source: Fitch Ratings, ADCB

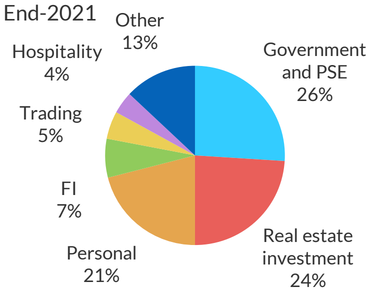
### Revenue Breakdown




Source: Fitch Ratings, ADCB

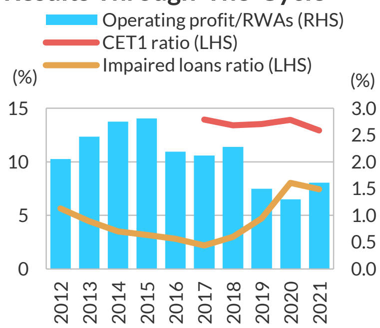
### Loans by Economic Sector

End-2021




Source: Fitch Ratings, ADCB

### Results Through-The-Cycle




Source: Fitch Ratings, ADCB

## Summary Financials and Key Ratios

| | 31 Dec 21 | | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 |
|---|---|---|---|---|---|
| | Year end (USDm) | Year end (AEDm) | Year end (AEDm) | Year end (AEDm) | Year end (AEDm) |
| | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 2,421 | 8,890.3 | 9,804.6 | 9,254.3 | 7,220.8 |
| Net fees and commissions | 517 | 1,899.3 | 1,550.9 | 1,816.2 | 1,394.6 |
| Other operating income | 402 | 1,477.3 | 1,133.7 | 669.4 | 576.1 |
| Total operating income | 3,340 | 12,266.9 | 12,489.2 | 11,739.9 | 9,191.5 |
| Operating costs | 1,159 | 4,257.3 | 4,526.3 | 4,517.7 | 3,083.5 |
| Pre-impairment operating profit | 2,181 | 8,009.6 | 7,962.9 | 7,222.2 | 6,108.0 |
| Loan and other impairment charges | 721 | 2,646.2 | 3,974.2 | 2,352.0 | 1,265.8 |
| Operating profit | 1,460 | 5,363.4 | 3,988.7 | 4,870.2 | 4,842.2 |
| Other non-operating items (net) | -4 | -16.4 | -59.5 | -36.8 | n.a. |
| Tax | 27 | 99.6 | 120.3 | 40.9 | 2.3 |
| Net income | 1,429 | 5,247.4 | 3,808.9 | 4,792.5 | 4,839.9 |
| Other comprehensive income | -133 | -490.2 | 167.0 | 1,448.2 | -785.0 |
| Fitch comprehensive income | 1,295 | 4,757.2 | 3,975.9 | 6,240.7 | 4,054.9 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 69,466 | 255,112.7 | 250,453.2 | 257,350.7 | 173,152.7 |
| - Of which impaired | 5,166 | 18,973.7 | 20,111.8 | 12,160.6 | 5,191.0 |
| Loan loss allowances | 2,949 | 10,830.4 | 11,477.5 | 7,333.4 | 6,726.9 |
| Net loans | 66,517 | 244,282.3 | 238,975.7 | 250,017.3 | 166,425.8 |
| Interbank | 7,262 | 26,670.1 | 21,535.4 | 23,065.0 | 19,627.1 |
| Derivatives | 1,767 | 6,488.0 | 11,146.4 | 6,789.7 | 4,447.2 |
| Other securities and earning assets | 27,272 | 100,157.7 | 90,105.9 | 75,541.6 | 55,416.4 |
| Total earning assets | 102,818 | 377,598.1 | 361,763.4 | 355,413.6 | 245,916.5 |
| Cash and due from banks | 9,189 | 33,746.2 | 29,601.6 | 24,905.0 | 19,581.5 |
| Other assets | 7,879 | 28,934.1 | 19,791.3 | 24,816.1 | 14,332.3 |
| Total assets | 119,885 | 440,278.4 | 411,156.3 | 405,134.7 | 279,830.3 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 72,172 | 265,052.3 | 251,395.5 | 262,093.8 | 176,653.9 |
| Interbank and other short-term funding | 9,919 | 36,428.2 | 27,302.6 | 9,588.2 | 9,026.7 |
| Other long-term funding | 13,472 | 49,475.8 | 51,069.1 | 50,088.8 | 40,351.8 |
| Trading liabilities and derivatives | 1,787 | 6,563.4 | 10,855.0 | 6,949.9 | 5,695.9 |
| Total funding and derivatives | 97,350 | 357,519.7 | 340,622.2 | 328,720.7 | 231,728.3 |
| Other liabilities | 6,369 | 23,388.7 | 13,932.7 | 20,716.4 | 15,296.5 |
| Preference shares and hybrid capital | 1,634 | 6,000.0 | 6,000.0 | 6,000.0 | 4,000.0 |
| Total equity | 14,532 | 53,370.0 | 50,601.4 | 49,697.6 | 28,805.5 |
| Total liabilities and equity | 119,885 | 440,278.4 | 411,156.3 | 405,134.7 | 279,830.3 |
| Exchange rate | | USD1 = AED3.6725 | USD1 = AED3.6725 | USD1 = AED3.6725 | USD1 = AED3.6725 |

Source: Fitch Ratings, Fitch Solutions, ADCB

## Summary Financials and Key Ratios

| | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 |
|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 1.6 | 1.3 | 1.5 | 2.3 |
| Net interest income/average earning assets | 2.4 | 2.7 | 2.9 | 3.0 |
| Non-interest expense/gross revenue | 34.7 | 36.3 | 38.5 | 33.6 |
| Net income/average equity | 10.2 | 8.0 | 11.9 | 17.6 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 7.4 | 8.0 | 4.7 | 3.0 |
| Growth in gross loans | 1.9 | -2.7 | 48.6 | 2.3 |
| Loan loss allowances/impaired loans | 57.1 | 57.1 | 60.3 | 129.6 |
| Loan impairment charges/average gross loans | 1.0 | 1.7 | 1.0 | 0.8 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 12.9 | 13.3 | 13.5 | 13.4 |
| Tangible common equity/tangible assets | 10.6 | 10.7 | 11.1 | 10.3 |
| Net impaired loans/common equity Tier 1 | 18.9 | 20.3 | 11.0 | -5.4 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 96.3 | 99.6 | 98.2 | 98.0 |
| Liquidity coverage ratio | 124.1 | 156.8 | 127.3 | n.a. |
| Customer deposits/total non-equity funding | 74.3 | 74.9 | 80.0 | 76.8 |

Source: Fitch Ratings, Fitch Solutions, ADCB

## Key Financial Metrics – Latest Developments

### Weaker Asset Quality; Risks Stabilised

ADCB's asset quality metrics compare weakly with those of large UAE peers largely due to corporate loans that have become problematic since 2020, modest loan growth and pandemic-related delinquencies. Fitch calculates the impaired loans ratio (including Stage 3 and POCI loans, but excluding interest in suspense (IIS)) to have fallen to 7.4% at end-2021 from 8.0% at end-2020, but this is materially higher than at end-2019 (4.7%). We estimate that the impaired loans ratio would be moderately higher when including IIS. The reduction in impaired loans in 2021 was primarily driven by loan write-offs (equivalent to 1.6% of end-2021 loans).

The significant increase in impaired loans since 2019 includes defaulted exposures recorded in 2020 relating to NMC healthcare and associated companies (exposure: AED4.3 billion; 1.7% of gross loans). Since then, ADCB has made significant provisions for this exposure and recently announced the restructuring of the group, which could result in recoveries. We expect the impaired loans ratio to broadly stabilise given improved operating environment conditions.

ADCB's reported Stage 2 loans, largely comprising exposures in the real estate segment, fell to 7.9 % of gross loans at end-2021 (8.6% at end-2020). Deferred payments under the TESS have also fallen (0.3% of gross loans, down from 3.0% at end-2020). We calculate total loan loss allowances (including fair value adjustments from expected credit losses carried in the books of UNB and AHB) covered 76% of total Stage 3 and POCI loans at end-2021, which is considered low compared to peers. Specific reserve coverage of impaired loans (considering only Stage 3 and POCI loans) was lower at 36%.

### Earnings to be Supported by Moderating Impairments, Higher Interest Rates

ADCB's operating profit/RWAs ratio improved to 1.6% in 2021 (from 1.3% in 2020) primarily owing to lower LICs (33% of pre-impairment operating profit) and improved non-interest income (+26% yoy; mainly from higher fees and commissions). LICs fell materially in 2021 given 2020 included significant charges in relation to NMC (about AED1.5 billion). We expect LICs to remain elevated compared to peers given ADCB's weaker asset quality and lower reserve coverage, but to gradually fall with improving macroeconomic conditions.

ADCB's NII remains compressed by the low interest rate environment but large inflows of Current and Savings Accounts (CASA) deposits have supported ADCB's cost of funding (0.7% in 2021; 1.3% in 2020). We expect the NII to be supported by rising interest rates in 2022 as loan yields gradually increase. ADCB's cost-to-income ratio of 35% in 2021 compares reasonably well with large, local peers and could improve further as merger related costs and synergies are fully realised. Non-interest income (27% of 2021 income; 21% in 2020) has risen due to higher banking volumes and gains from investment properties.

### Unreserved Problem Loans and High Credit Concentrations Weigh on Capital

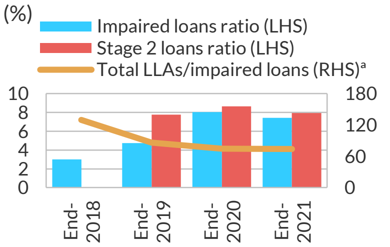
The CET1 ratio fell to 12.9% at end-2021 (allowing for the proposed dividend), primarily reflecting regulatory inflation of RWAs in 2021, but also dividends (49% payout ratio). The Tier 1 ratio (14.7%) was higher, supported by AED6 billion of additional Tier 1 capital issued to the Abu Dhabi government. Our assessment of capitalisation also reflects credit concentration (by sector and borrower) and unreserved problem loans (19% of CET1). Nevertheless, ADCB's capital ratios are comfortably above regulatory requirements (including the D-SIB buffer).

### Funding and Liquidity a Ratings Strength; High Share of CASA deposits

The bank's share of low-cost CASA deposits (58% at end-2021; 51% at end-2020) is higher than peers', reflecting its franchise, and underpins its deposit base and cost of funding. Government and GRE deposits made up 41% of customer accounts at end-2021, with Islamic participations (from AHB) making up 14% and adding some deposit diversification. ADCB's largest deposits are moderately concentrated, as is the case for most peers, although a high share are government-linked, mitigating risks.

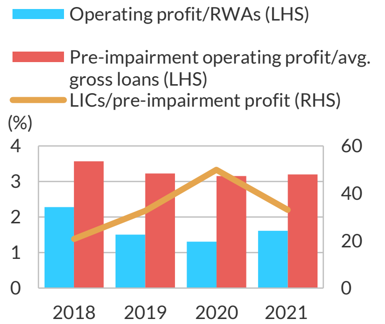
The loans/deposits ratio fell to 96% at end-2021 amid low loan growth. Wholesale funding access is good and amounted to about AED86 billion at end-2021 (22% of total funding). Liquid assets accounted for 45% of customer deposits at end-2021, with the liquidity coverage ratio at 124%.

### Asset Quality



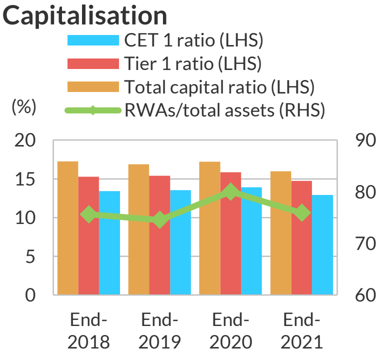

[a] Loan Loss Allowances (LLAs) include fair value adjustments of historical ECLs at end-2021, end-2020 and end-2019
Source: Fitch Ratings, ADCB

### Profitability



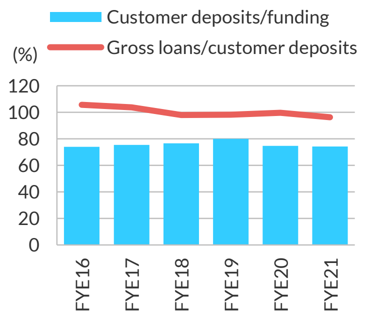

Source: Fitch Ratings, ADCB

### Capitalisation




Source: Fitch Ratings, ADCB

### Funding Profile




Source: Fitch Ratings, ADCB

## Environmental, Social and Governance Considerations

FitchRatings **Abu Dhabi Commercial Bank PJSC**

**Banks**
Ratings Navigator

### Credit-Relevant ESG Derivation

Abu Dhabi Commercial Bank PJSC has 5 ESG potential rating drivers

- Abu Dhabi Commercial Bank PJSC has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

| | | | Overall ESG Scale |
|---|---|---|---|
| key driver | 0 | issues | 5 |
| driver | 0 | issues | 4 |
| potential driver | 5 | issues | 3 |
| not a rating driver | 4 | issues | 2 |
| | 5 | issues | 1 |

### Environmental (E)

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

### Social (S)

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

### Governance (G)

| General Issues | G Score | Sector-Specific Issues | Reference | G Scale |
|---|---|---|---|---|
| Management Strategy | 3 | Operational implementation of strategy | Management & Strategy | 5 |
| Governance Structure | 3 | Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions | Management & Strategy; Earnings & Profitability; Capitalisation & Leverage | 4 |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Company Profile | 3 |
| Financial Transparency | 3 | Quality and frequency of financial reporting and auditing processes | Management & Strategy | 2 |
| | | | | 1 |

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

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

**CREDIT-RELEVANT ESG SCALE**

**How relevant are E, S and G issues to the overall credit rating?**

| | |
|---|---|
| 5 | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator. |
| 4 | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator. |
| 3 | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator. |
| 2 | Irrelevant to the entity rating but relevant to the sector. |
| 1 | Irrelevant to the entity rating and irrelevant to the sector. |

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.