

Bank Hapoalim B.M.

Key Rating Drivers

Support Drives Ratings: Bank Hapoalim B.M.'s Issuer Default Ratings (IDRs) reflect Fitch Ratings' view of a very high probability that Israel (A+/Stable/F1+) would provide support to the bank, if needed. Fitch believes that Israel's ability and propensity to support Hapoalim is very high, particularly given the bank's systemic importance in the country, holding about 30% of banking system assets.

Universal Banking Franchise: Hapoalim's Viability Rating (VR) reflects a strong franchise in retail and corporate banking in Israel, asset quality that we expect to remain resilient considering the bank's material exposure to the property sector, and adequate capitalisation. The VR also reflects the bank's sound funding, given its large deposit base, and strengthening profitability, which in 2022 benefitted from significant demand for credit and from several interest rate increases during the year.

Close Regulatory Oversight: Hapoalim's underwriting standards are conservative, helped by tight regulatory limits and oversight. Like other Israeli banks, Hapoalim has material exposure to the construction and real estate sectors, which results in risk concentration and makes its asset quality vulnerable to a sharp decline in real estate prices. However, the majority of its exposure is to residential projects, which we expect to continue to perform adequately given high population growth and structural demand for housing in Israel.

Asset Quality Remains Sound: Hapoalim's impaired loans ratio decreased to 0.8% at end-September 2022, partly benefitting from high loan growth, particularly in mortgages. We expect higher loan impairment charges next year as the loans season. Asset quality will also be affected by higher interest rates and high inflation (albeit lower than many other countries), but due to sound underwriting and resilient operating environment we expect the impaired loans ratio to remain below 1.5% over the next two years.

Strong Earnings Recovery: Profitability benefitted from loan growth (+8% in 9M22), which boosted net interest income, as well as from wider net interest margins due to increasing interest rates. Cost efficiency continues to improve. We expect positive profitability trends to remain, with the bank's operating profit/risk-weighted assets (RWAs) ratio expected to remain above 2% in 2023, despite slowing loan demand. This is due to weakened credit demand on higher mortgage rates and a decrease in housing transactions in Israel, already observable in 4Q22.

Capital Buffers Adequate: Headroom in our capitalisation score is limited, but capitalisation remains adequate, with a common equity Tier 1 (CET1) ratio of 11.10% at end-September 2022. Hapoalim uses the standardised approach for credit risk, which results in high RWAs density (RWAs/total assets) of 62%. We expect the bank to maintain a moderate buffer above the regulatory requirement, which has reverted to 10.23% following a temporary reduction. Our assessment also considers the bank's improved internal capital generation.

Large, Stable Deposit Base: Hapoalim's solid and stable funding base consists mostly of customer deposits, which exceed the size of the loan book. It also has proven access to domestic and international debt markets. Liquidity is strong, with a 126% liquidity coverage ratio at end-September 2022.

Hapoalim's 'F1+' Short-Term IDR is the higher of two possible Short-Term IDRs that map to a 'A' Long-Term IDR because we view the sovereign's propensity to support as more certain in the near term.

Banks

Universal Commercial Banks
Israel

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1+

Viability Rating	a-
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Government Support Rating	a
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Sovereign Risk (Israel)

Long-Term Foreign-Currency IDRA+	
Long-Term Local-Currency IDR	A+
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 \(September 2022\)](#)

Related Research

[Fitch Affirms Bank Hapoalim at 'A'; Outlook Stable \(December 2022\)](#)

[Global Economic Outlook \(December 2022\)](#)

[Fitch Affirms Israel at 'A+; Outlook Stable \(August 2022\)](#)

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Rating Sensitivities

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

Hapoalim's IDRs are primarily sensitive to a weakening of Israel's ability or propensity to support the bank. A downgrade of Israel's Long-Term IDR would likely result in a downgrade of Hapoalim's Government Support Rating (GSR) and its IDRs. A reduced propensity of the Israeli authorities to support the country's largest banks, which could be signalled by the introduction of a deposit guarantee scheme at first, and subsequently by effective bank resolution legislation, would also result in a downgrade of the bank's IDRs and GSR.

A sharp deterioration of asset quality that results in an impaired loan ratio of above 2% for an extended period combined with the CET1 ratio declining below current levels and weakening internal capital generation could result in a VR downgrade. Given the bank's significant exposure to the real estate sector, a sharp decline in real estate prices would put pressure on asset quality, and therefore on the VR.

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

An upgrade of Israel's Long-Term IDR is unlikely to result in an upgrade of the bank's GSR and Long-Term IDR as we typically do not assign GSRs above 'a' for domestic systemically important banks in countries whose sovereigns are rated 'AA' or 'AA-' and where support propensity is high.

An upgrade of Hapoalim's VR is unlikely given the bank's geographical concentration. It would require a material and structural improvement in profitability that allows the bank to generate stronger and more stable operating profit/RWAs while also maintaining materially higher capital ratios, which we do not expect.

Other Debt and Issuer Ratings

Rating level	Rating
Subordinated Tier 2 debt: long-term	BBB

Source: Fitch Ratings

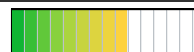
Subordinated debt is notched down from the bank's VR, in accordance with Fitch's assessment of each instrument's respective non-performance and relative loss-severity risk profiles.

Hapoalim's USD1 billion Tier 2 notes are rated two notches below the bank's VR, reflecting poor recovery prospects in the event of a failure of the bank, in line with Fitch's base-case notching for Tier 2 debt.

Ratings Navigator

Bank Hapoalim B.M.

ESG Relevance:


Banks
Ratings Navigator

Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	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 Sta
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB
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

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 'a' has been assigned below the implied 'aa' category implied score due to the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

The business profile score of 'a-' has been assigned above the implied 'bbb' category implied score due to the following adjustment reason: market position (positive).

The capitalisation & leverage score of 'a-' has been assigned above the implied 'bbb' category implied score due to the following adjustment reason: leverage and risk-weight calculation (positive).

Company Summary and Key Qualitative Factors

Business Profile

Strong Domestic Franchise and Diverse Business Model

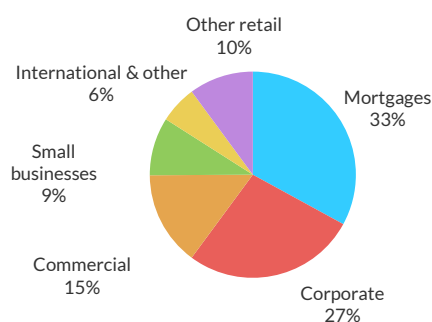
Hapoalim is Israel's second-largest bank by total assets and by net income. It is not materially smaller than the largest bank. As a universal retail and commercial bank it provides a wide range of retail, commercial, capital market and private banking services, with good domestic market shares across all major segments.

International activities, apart from the US, have decreased in importance in recent years, with only moderate exposures remaining (about 4% of net customer loans at end-9M22). These mostly centre on middle-market commercial clients within the group's US branch. Hapoalim has discontinued activities in its Swiss private bank, and the entity will be closed once procedures to return its banking licence are complete. In March 2022 Hapoalim purchased the minority's shareholder's shares in Bank Pozitif, a Turkish bank, for USD5 million in order to bring an end to legal proceedings. Hapoalim has been trying to sell the bank for several years, and the loan book (ILS137 million; <0.1% of group loans) is in run-off.

The bank's business model is diversified, but still reliant on net interest income. Non-interest income comes largely from fees and commissions, including account-management and loan-application fees, as well as from trading activities in Israeli government bonds and in other securities traded on behalf of clients. Trading activities are reported in the bank's financial management segment, which also includes earnings from derivative positions used to manage the bank's exposure to interest rate risk and to the consumer price index (CPI), given its exposure via CPI-linked mortgages and other assets, as well as gains and losses from its equity investments in non-financial corporations. Hapoalim's strategy is to grow its loan book across all lending segments while improving cost efficiency through digital innovation and other cost-efficiency measures.

Net Customer Loans

ILS381.6bn, end-3Q22



Source: Fitch Ratings, Hapoalim

Risk Profile

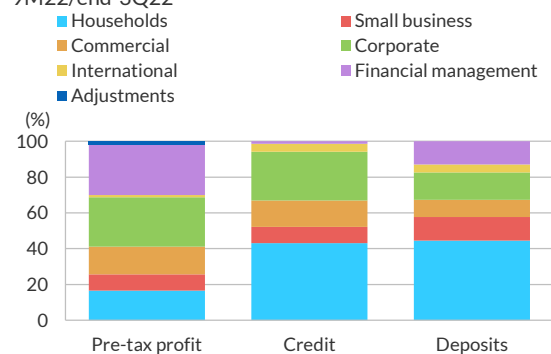
Credit underwriting standards are stringent by global standards and are influenced by very prudent banking regulation that seeks to limit the contingent liability that the banking sector presents to the sovereign. Residential mortgages are subject to regulations including maximum 75% loan-to-value (LTV) ratios and a maximum term of 30 years. Hapoalim also minimises the number of mortgages with a payment-to-income ratio greater than 40% – partly because loans above this limit have higher capital requirements.

SMEs and large corporations represent about half of total loans at end-9M22 and are diversified by sector, although geographically they are concentrated in Israel. The largest sector exposure is to the construction and real estate (CRE) sector, and most exposures are secured on residential property developments with a smaller exposure to commercial property. The CRE sector has been identified by the regulator as a potential risk, and so Hapoalim and its peers are subject to regulatory limits and increased scrutiny of exposures and collateral. Concentration limits for the sector were increased by 200bp during the pandemic but will be reduced to pre-pandemic limits from 2026.

Hapoalim has faced large conduct fines in recent years, particularly from its USD874 million settlement with the US Department of Justice in 2020 related to allegations of helping clients avoid US taxes. The bank was also engaged in a lawsuit brought by the minority shareholder of Bank Pozitif, although the acquisition of the minority shareholder's stake for USD5 million ended these proceedings. The full ownership of Bank Pozitif may help Hapoalim exit the Turkish market, either through a sale or a wind-down of the business, further reducing operational risk.

Business Model Split

9M22/end-3Q22



Results and operations of segments based on management approach

Source: Fitch Ratings, Hapoalim

Domestically, the Bank of Israel continues to focus on customer redress and conduct, which we expect to result in further conduct expenses, albeit for lower amounts than the above cases. For example, in February 2022 the bank was required to refund customers an estimated ILS7 million for overcharging the cost of sending registered letters. Hapoalim is also involved in several class-action lawsuits, which was flagged in the 9M22 auditors' review as an 'emphasis of a matter' as some are at an early stage where the probable outcome cannot be assessed. These lawsuits often involve multiple banks and so, in our view, are typically more reflective of sector-wide operational risks.

The bank's exposure to market risk arises primarily from interest-rate and CPI risks in the banking book, which we view as moderate in light of the bank's framework of limits. The bank undertakes trading activities, which are predominantly client-driven, and appetite for traded market risk is modest. Market risk also arises from ILS3.2 billion of private equity and quasi-equity investments made through the bank's subsidiary Poalim Equity, which at end-9M22 amounted to 7% of the bank's CET1 capital.

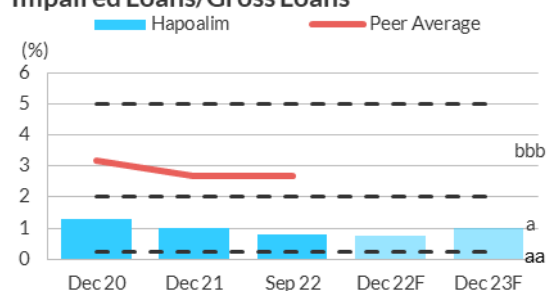
Financial Profile

Asset Quality

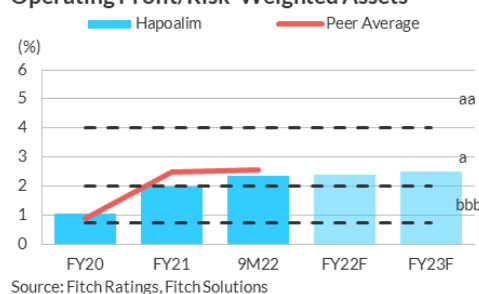
Residential mortgages represented 33% of loans at end-9M22, up from about 22% at end-2015, driven by both increasing house prices and demographic trends. Corporate and commercial loans grew more slowly in 9M22, at between 7% and 8%, while lending to small business grew only 2.6%, and consumer lending contracted by 1.5%. We expect mortgage lending to grow much more slowly over the next year as transaction volumes have begun to slow in 4Q22, and price declines will present a further drag on mortgage growth.

Large exposures to single borrowers or groups of related entities have declined in recent years, partly due to regulatory initiatives, but they remain high. Net credit exposure to the largest group of related borrowers represented 18.3% of CET1 capital at end-9M22.

Impaired Loans/Gross Loans



Operating Profit/Risk-Weighted Assets



Earnings and Profitability

Strong loan growth (+14% in the 12 months to end-9M22) and continued net releases (ILS464 million) of loan loss allowances amid Israel's strong macroeconomic recovery and the very limited deterioration in asset quality have all aided Hapoalim's 2022 profitability. Costs have also remained under control and below pre-pandemic levels due to ongoing efficiency programmes. These programmes include the closure of branches, which fell from 175 at end-2021 to 169 at end-9M22, and early retirement incentives which began in 2020 and will reduce headcount by over 900 employees by end-2022.

In addition to interest income and banking fees, the bank had ILS130 million capital gains in 9M22 from the sale of branch properties and other assets. We exclude this non-recurring income from our calculation of operating profit.

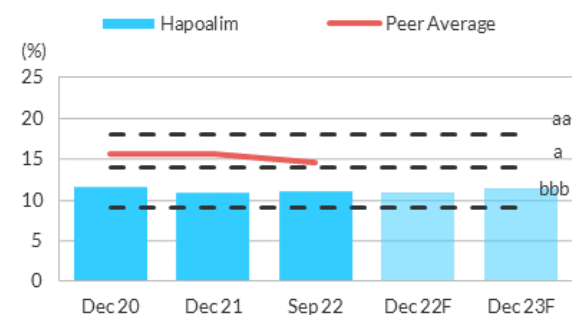
Like other Israeli banks, Hapoalim maintains a net long position to the CPI by holding more CPI-linked assets (mainly CPI-linked mortgages) than liabilities (mainly CPI-linked debt and deposits). While the CPI contribution to profitability is low during periods of low inflation (e.g. minus ILS93 million in 2020), it contributed ILS1.1 billion in 9M22, or about 9% of operating profit.

Capital and Leverage

Hapoalim's 11.10% CET1 ratio at end-September 2022 was 87bp above the minimum regulatory requirement, which is tighter than at many similarly rated international peers. However, we view Hapoalim's capitalisation as adequate for its risk profile and geographical focus. We also consider that risk-weighted capital ratios are more stable than those of many international peers given Israeli banks' exclusive use of standardised capital models. In our view, the standardised risk weights are conservative, particularly for residential mortgages given regulatory limits on LTV and affordability ratios.

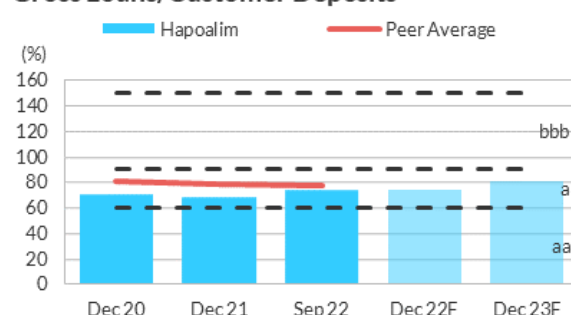
The total capital requirement increased to 13.5% from 12.5% on 1 January 2022 following expiration of a temporary reduction granted to all banks during the pandemic, and Hapoalim's 14.34% total capital ratio at end-9M22 had an adequate 84bp buffer over the regulatory requirement.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Hapoalim has a solid and stable funding base that consists mostly of customer deposits, which represented 92% of total non-equity funding at end-9M22. The bank has limited interbank and wholesale funding, although it has proven access to both domestic and international bond markets. Gross loans have significantly increased despite rising rates, which, in addition to slight increases in total customer deposits, has meant the loan-to-deposit ratio rose to 74% at end-9M22 (end-2021: 68%). Liquidity is strong, with a consolidated liquidity coverage ratio of 126% at end-9M22.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

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

Peer average includes Bank Leumi Le-Israel B.M. (VR: a-), Mizrahi Tefahot Bank Ltd (a-), Israel Discount Bank Limited (a-), Ceska Sporitelna, a.s. (a), Komerční Banka, a.s. (a), Bank Pekao S.A. (bbb), Erste Group Bank AG (a), AIB Group plc (bbb), Bank of Ireland Group plc (bbb). Latest average uses 1H22 data for AIB Group plc, Bank of Ireland Group plc.

Financials

Financial Statements

	30 Sep 22		31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
	9 months - 3rd quarter (USDm)	9 months - 3rd quarter (ILSm)	Year end (ILSm)	Year end (ILSm)	Year end (ILSm)	Year end (ILSm)
	Reviewed – unqualified (emphasis of matter)	Reviewed – unqualified (emphasis of matter)	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	2,701	9,571	9,800	8,808	9,336	8,933
Net fees and commissions	784	2,776	3,355	2,917	3,015	3,318
Other operating income	87	310	1,194	1,163	695	1,499
Total operating income	3,572	12,657	14,349	12,888	13,046	13,750
Operating costs	1,673	5,926	7,803	7,263	8,480	8,960
Pre-impairment operating profit	1,900	6,731	6,546	5,625	4,566	4,790
Loan and other impairment charges	-128	-455	-1,220	1,940	1,276	613
Operating profit	2,028	7,186	7,766	3,685	3,290	4,177
Other non-operating items (net)	37	130	92	-52	173	392
Tax	715	2,533	2,958	1,590	1,681	2,009
Net income	1,350	4,783	4,900	2,043	1,782	2,560
Other comprehensive income	-478	-1,693	-589	342	-176	-408
Fitch comprehensive income	872	3,090	4,311	2,385	1,606	2,152
Summary balance sheet						
Assets						
Gross loans	109,705	388,685	359,698	310,166	299,618	288,693
- Of which impaired	856	3,033	3,617	3,960	4,442	2,721
Loan loss allowances	1,466	5,193	5,106	6,145	4,707	3,758
Net loans	108,239	383,492	354,592	304,021	294,911	284,935
Interbank	n.a.	n.a.	2,779	3,242	4,806	3,219
Derivatives	8,039	28,481	12,984	14,890	11,143	10,534
Other securities and earning assets	26,050	92,294	73,211	72,809	60,149	56,927
Total earning assets	142,328	504,267	443,566	394,962	371,009	355,615
Cash and due from banks	41,045	145,423	186,504	135,469	83,316	81,240
Other assets	2,440	8,646	8,711	9,171	9,363	24,071
Total assets	185,813	658,336	638,781	539,602	463,688	460,926
Liabilities						
Customer deposits	149,078	528,185	525,824	435,978	362,330	352,260
Interbank and other short-term funding	5,323	18,860	15,027	6,597	3,523	4,736
Other long-term funding	7,413	26,263	25,338	23,002	26,120	29,047
Trading liabilities and derivatives	7,346	26,026	14,350	16,804	12,050	9,676
Total funding and derivatives	169,160	599,334	580,539	482,381	404,023	395,719
Other liabilities	3,933	13,933	15,251	16,834	20,711	26,574
Preference shares and hybrid capital	n.a.	n.a.	244	488	733	977
Total equity	12,721	45,069	42,747	39,899	38,221	37,656
Total liabilities and equity	185,813	658,336	638,781	539,602	463,688	460,926
Exchange rate		USD 1 = ILS3.543	USD 1 = ILS3.15	USD 1 = ILS3.222	USD 1 = ILS3.463	USD 1 = ILS3.771

Source: Fitch Ratings, Fitch Solutions, Hapoalim

Key Ratios

	30 Sep 22	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.4	2.0	1.1	1.0	1.2
Net interest income/average earning assets	2.7	2.4	2.3	2.6	2.6
Non-interest expense/gross revenue	47.2	54.6	56.4	65.1	65.2
Net income/average equity	14.6	11.8	5.3	4.6	6.9
Asset quality					
Impaired loans ratio	0.8	1.0	1.3	1.5	0.9
Growth in gross loans	8.1	16.0	3.5	3.8	6.2
Loan loss allowances/impaired loans	171.2	141.2	155.2	106.0	138.1
Loan impairment charges/average gross loans	-0.2	-0.4	0.6	0.4	0.2
Capitalisation					
Common equity Tier 1 ratio	11.1	11.0	11.5	11.5	11.2
Tangible common equity/tangible assets	6.9	6.0	6.5	7.9	7.9
Basel leverage ratio	6.2	6.0	6.8	7.6	7.5
Net impaired loans/common equity Tier 1	-4.8	-3.5	-5.5	-0.7	-2.7
Funding and liquidity					
Gross loans/customer deposits	73.6	68.4	71.1	82.7	82.0
Liquidity coverage ratio	126.0	124.0	140.0	121.0	120.0
Customer deposits/total non-equity funding	92.1	92.8	93.5	92.3	91.0
Net stable funding ratio	127.0	141.0	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Hapoalim

Support Assessment

Commercial Banks: Government Support

Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a to a-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	a

Government ability to support D-SIBs

Sovereign Rating	A+/ Stable
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive

Government propensity to support D-SIBs

Resolution legislation	Neutral
Support stance	Neutral

Government propensity to support bank

Systemic importance	Positive
Liability structure	Positive
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

Hapoalim's IDRs are driven by its Government Support Rating (GSR), which is in line with the domestic systemically important bank (D-SIB) GSR for Israel and reflects Fitch's view of a very high probability that Israel (A+/Stable) would provide support to Hapoalim, if needed. Fitch believes that Israel has a strong ability to support its banking sector and that the sovereign's propensity to support Hapoalim is high, particularly given the bank's systemic importance in the country with a market share of about 30% of banking-sector assets.

Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Bank Hapoalim B.M. has 5 ESG potential rating drivers

- ➔ Bank Hapoalim B.M. 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	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
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.

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.

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