Fitch Ratings

**Banks**
Universal Commercial Banks
**Israel**

# Bank Hapoalim B.M.

## Key Rating Drivers

**VR and Support Drive IDRs:** Bank Hapoalim B.M.'s Issuer Default Ratings (IDRs) are driven by its Viability Rating (VR) and underpinned by Fitch Ratings' view of a very high probability that Israel (A/Negative/F1+) would provide support to the bank, if needed. Fitch believes 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.

**Diversified Business Model:** Hapoalim's VR reflects its strong franchise in retail and corporate banking in Israel. Asset quality and earnings have been resilient, despite the macroeconomic effects of the war in Gaza, and we expect them to remain so, given prudent underwriting and a multi-year focus on improving efficiency. The VR also reflects the bank's sound funding, given its diversified and granular deposit base, and adequate capitalisation.

**Close Regulatory Oversight:** Hapoalim's underwriting standards are conservative, helped by prudent 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, most of its exposure is to residential projects, which we expect to perform adequately, given high population growth and structural demand for housing in Israel.

**Asset Quality Remains Sound:** Hapoalim's impaired loans ratio was 0.7% at end-3Q24 and has decreased slightly, despite the macroeconomic impact of the war. We expect higher loan impairment charges as loans season, given high loan growth in recent years. Asset quality will also be affected by higher interest rates and inflation, but due to sound underwriting and a resilient operating environment we expect the impaired loans ratio to remain below 1.5% over the next two years.

**Strong Earnings Recovery:** Profitability has benefited from loan growth and higher interest rates, which support net interest income. Higher inflation has also benefited income in recent years, given the bank's net long exposure to the consumer price index. We expect profitability trends to remain positive, driven by higher interest rates and improved efficiency. We forecast risk-adjusted operating profitability, which was 2.7% in 9M24, to remain above 2% for the next two years.

**Capital Buffers Adequate:** Headroom in our capitalisation score is limited, but capitalisation remains adequate, with a common equity Tier 1 (CET1) ratio of 11.9% at end-3Q24. We expect it to remain above 11.5% over the next two years. Hapoalim uses the standardised approach for credit risk, which results in high risk-weighted asset density (RWAs/total assets) of 67%. 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. The bank has proven access to domestic and international debt markets. Liquidity is strong, with a 132% liquidity coverage ratio at end-3Q24.

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.

## Ratings

**Foreign Currency**

| | |
|---|---|
| Long-Term IDR | A- |
| Short-Term IDR | F1 |
| Long-Term IDR (xgs) | A-(xgs) |
| Short-Term IDR (xgs) | F1(xgs) |
| Viability Rating | a- |
| Government Support Rating | a- |

**Sovereign Risk (Israel)**

| | |
|---|---|
| Long-Term Foreign-Currency IDR | A |
| Long-Term Local-Currency IDR | A |
| Country Ceiling | AA- |

**Outlooks**

| | |
|---|---|
| Long-Term Foreign-Currency IDR | Negative |
| Sovereign Long-Term Foreign-Currency IDR | Negative |
| Sovereign Long-Term Local-Currency IDR | Negative |

## Applicable Criteria

Bank Rating Criteria (March 2024)

## Related Research

Fitch Affirms Bank Hapoalim at 'A-'; Outlook Negative (November 2024)

Global Economic Outlook (September 2024)

Fitch Downgrades 4 Israeli Banks to 'A-'/Negative/'F1' after Sovereign Action (August 2024)

Fitch Downgrades Israel to 'A'; Outlook Negative (August 2024)

Major Israeli Banks – Peer Review 2024 (February 2024)

## Analysts

Michael Bojko, CFA
+44 20 3530 2723
michael.bojko@fitchratings.com

Rory Rushton
+44 20 3530 1919
rory.rushton@fitchratings.com

## Rating Sensitivities

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

A downgrade of the sovereign ratings would result in a downgrade of Hapoalim's Long-Term IDR if accompanied by a downgrade of the bank's VR.

A sharp increase in the bank's risk environment that increases the likelihood of asset-quality deterioration could result in a downgrade. A 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 also 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 Hapoalim's IDRs is unlikely due to the Negative Outlook on the sovereign's Long-Term IDR. We would revise the Outlook to Stable if the sovereign Outlook was revised to Stable.

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: long term | BBB |

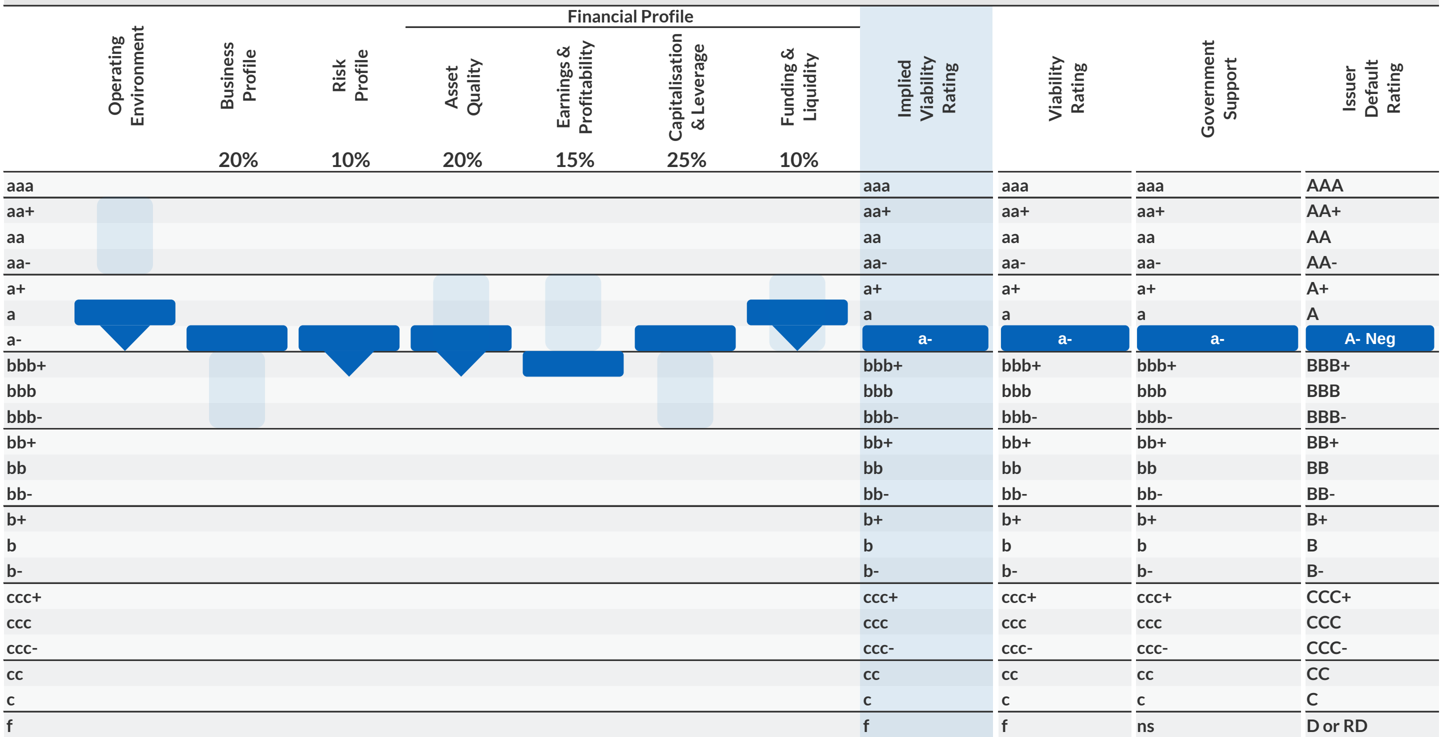
Source: Fitch Ratings

Hapoalim's Tier 2 subordinated notes are rated two notches below the bank's VR to reflect poor recovery prospects in the event of a failure or non-performance of the bank.

The Long-Term IDR (xgs) of 'A-(xgs)' is at the level of the VR. The Short-Term IDR (xsg) of 'F1(xgs)' is the higher of two possible options that map to a 'A-' Long-Term IDR (xgs) due to Hapoalim's 'a' funding & liquidity score.

## Ratings Navigator

**Bank Hapoalim B.M.** 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 '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 earnings & profitability score of 'bbb+' has been assigned below the implied 'a' category implied score due to the following adjustment reasons: earnings stability (negative).

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

### Operating Environment

Fitch downgraded Israel's sovereign rating one notch to 'A'/Negative in August 2024 due to the impact of the continuation of the war, including pressure on public finances. However, our operating environment assessment for Israeli banks is unchanged as, in our view, the sovereign downgrade does not reduce the banks' ability to generate new business within their current risk appetites.

Our operating environment assessment also reflects our view that the resilience of the sector is a regulatory priority. Government support for borrowers has supported banks' asset quality. The Bank of Israel has also used its foreign-exchange reserves to intervene in the currency market and reduce the volatility in the shekel. While Israeli banks do not have high foreign-currency exposures, the interventions support wider macroeconomic stability.

The negative outlook on the operating environment score reflects the Negative Outlook on the sovereign rating, which caps the score.

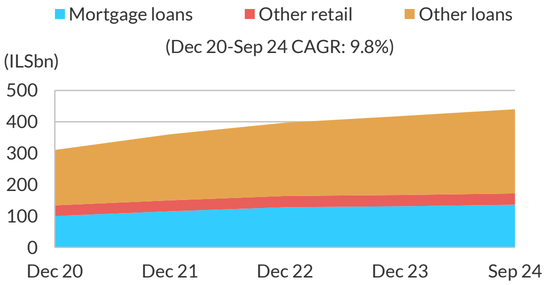
### Business Profile

Hapoalim is the second-largest bank in Israel by total assets and by operating income, but it is only marginally smaller than the largest. It operates as a universal bank providing a wide range of retail, commercial and private banking services. Hapoalim has strong domestic market shares across business segments and is a significant provider of loans for corporate clients. It is publicly traded on the Tel Aviv Stock Exchange and widely held by the public, with no individual shareholders exercising significant control.

The bank's business model is diversified but with some reliance on net interest income. Non-interest income is 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. 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.

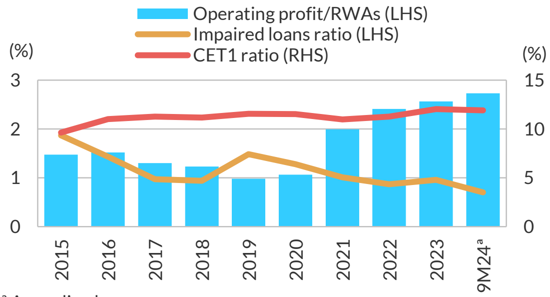
International activities, apart from the US, have decreased in importance in recent years, and customer loans outside Israel accounted for about 6% of customer loans at end-3Q24. US activities mostly centre on middle-market commercial clients within the group's New York branch.

#### Loan Book Breakdown




CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, Hapoalim

#### Performance Through the Cycle




ª Annualised
Source: Fitch Ratings, Fitch Solutions, Hapoalim

### Risk Profile

Loan underwriting standards are stringent by global standards and are influenced by prudent banking regulation that seeks to limit the contingent liability that the banking sector presents to the sovereign. Residential mortgages are subject to limits prescribed by the regulator, including maximum 75% loan-to-value (LTV) ratios for first-time buyers and a maximum term of 30 years. Mortgage loans with a payment-to-income ratio greater than 40% attract higher capital requirements and as a result represented less than 1% of the mortgage loan book.

The largest sector exposure is to construction and real estate, and most of this exposure is related to the construction of housing. The construction and real estate sector has been identified by the regulator as a potential risk, and so Hapoalim and peers are subject to regulatory limits and increased scrutiny of exposures and collateral. We also expect an increase in exposure to infrastructure projects, although the risk is likely to be mitigated by government support—whether direct or indirect—for these major investments and the syndication of large project loans across multiple lenders.

Domestically, Hapoalim faces conduct risks and is regularly involved in class-action lawsuits. These lawsuits are common in Israel and often involve multiple banks. In our view, they are 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 that are predominantly client driven, and appetite for traded market risk is modest. Market risk also arises from ILS4.3 billion of private equity and quasi-equity investments made through the bank's subsidiary Poalim Equity, which at end-3Q24 totalled 8% of the bank's CET1 capital.

We view risk controls as robust, although we recognise downside risks as a result of the war. In particular, operational risk, including cyber risk, is high. In addition, Hapoalim and other Israeli banks may be more exposed to market risks because of the potential impact of different war scenarios on the exchange rate, interest rates, inflation and domestic capital markets.

## Financial Profile

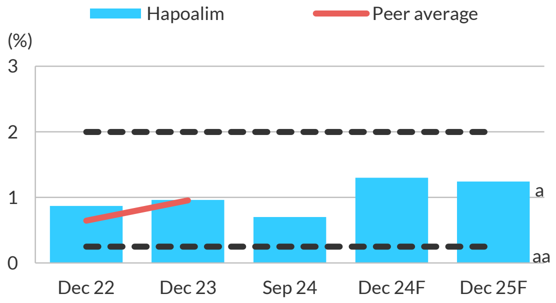
### Asset Quality

Residential mortgages represented 32% of loans at end-3Q24, up from about 22% at end-2015. We expect mortgage lending, which grew 4.5% yoy, to remain a higher-growth segment given Israel's high population growth. Loans to large corporations were the fastest-growing segment, increasing 9.1% yoy, while consumer lending grew only 1.5%. Large exposures to single borrowers or groups of related entities have declined in recent years, due partly to regulatory initiatives. One borrower group exceeded 15% of the bank's capital in 3Q24, and borrower concentrations are likely higher than those of international peers.

Exposure to construction and real estate accounted for 21% of credit risk exposure at end-3Q24. This sector has been affected by labour shortages on construction sites due to travel restrictions affecting the Palestinian territories. However, demand for new buildings remains strong due to high population growth. Construction and real estate lending also include infrastructure projects which, in some cases, benefit from implicit or explicit government support.

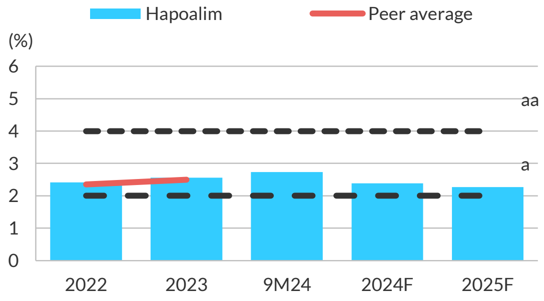
We forecast the impaired loans ratio to remain below 1.5%. While some lending segments continue to be directly affected by the effects of the war, their loan performance has not significantly deteriorated, due partly to government support for borrowers in the industries and locations that are most affected.

#### Impaired Loans/Gross Loans




Source: Fitch Ratings, Fitch Solutions, banks

#### Operating Profit/Risk-Weighted Assets




Source: Fitch Ratings, Fitch Solutions, banks

### Earnings and Profitability

We forecast operating profit/RWAs to remain above 2% over the next two years. While we expect loan impairment charges to increase, the bank has large buffers of loan loss allowances to absorb this deterioration. This is because Hapoalim, like its domestic peers, increased collective credit provisions at the start of the war but has not seen a significant increase in asset quality deterioration to date. As a result, we would expect the bank to remain profitable even if asset quality deteriorates significantly. Our assessment also considers that earnings may be less stable given geographic concentration in Israel.

Costs have remained under control and below pre-pandemic levels due to efficiency programmes. These programmes include the closure of branches, headcount reductions and investments in digital customer service channels. Hapoalim's cost-income ratio of less than 40% compares favourably with both domestic and international peers.

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). The CPI contribution to profitability is low during periods of low inflation (eg minus ILS93 million in 2020) and vice versa. The CPI exposure contributed ILS1,205 million in 9M24, or slightly more than 10% of operating profit.

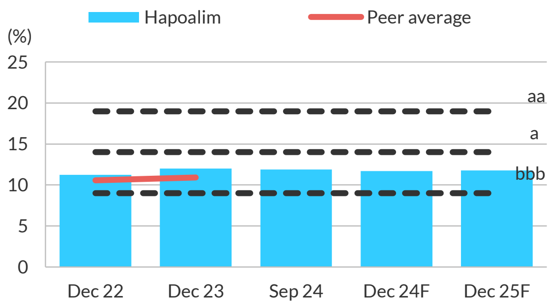
### Capitalisation and Leverage

Hapoalim's 11.9% CET1 ratio at end-3Q24 was 167bp above the minimum regulatory requirement and is high due to the dividend restraint exercised by Israeli banks since the start of the war. We expect capital ratios to decrease once risks from the war reduce, and we view Hapoalim's capitalisation as adequate for its risk profile. The 14.8% total capital ratio at end-3Q24 had an adequate 130bp buffer over the regulatory requirement.

While Hapoalim's capital ratios are lower than international peers', they tend to be more stable given Israeli banks' exclusive use of standardised capital models. We view the standardised risk-weights as conservative, particularly for residential mortgages given regulatory limits on LTV and affordability ratios.

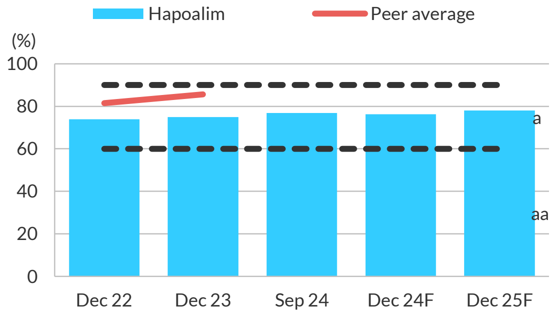
Hapoalim's Basel leverage ratio of 7.2% at end-3Q24 is adequately above the 5.5% minimum requirement and reflects high risk weights. This minimum requirement reflects temporary relief due to the war, and we expect it to return to 6.0% in 1H26.

### CET1 Ratio




Source: Fitch Ratings, Fitch Solutions, banks

### Gross Loans/Customer Deposits




Source: Fitch Ratings, Fitch Solutions, banks

## Funding and Liquidity

Over 90% of Hapoalim's non-equity funding at end-3Q24 consisted of customer deposits. Its domestic deposit franchise is strong, with deposits from retail customers, corporates and SMEs within Israel and without significant concentrations. These deposits have proven stable despite rising interest rates and geopolitical uncertainty.

The bank has limited reliance on interbank and wholesale funding, although it has proven access to both domestic and international bond markets. We would be likely to lower our funding and liquidity assessment if the sovereign is downgraded, given its implicit support for the banking sector. This is because a sovereign downgrade would be likely to be accompanied by a deterioration in the operating environment and could result in less favourable wholesale funding conditions and put pressure on deposits, although this has not happened to date.

## 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 macroeconomic 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 M&A 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. 'F' represents Fitch's forecasts.

The peer average includes Bank Leumi Le-Israel B.M. (VR: a-), Mizrahi Tefahot Bank Ltd (a-), Israel Discount Bank Limited (a-).

# Financials

## Financial Statements

| | 30 Sep 24 | | 31 Dec 23 | 31 Dec 22 | 31 Dec 21 |
|---|---|---|---|---|---|
| | 9 months - 3rd quarter | 9 months - 3rd quarter | Year end | Year end | Year end |
| | (USDm) | (ILSm) | (ILSm) | (ILSm) | (ILSm) |
| | Reviewed - unqualified | Reviewed - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 3,449 | 12,795 | 16,141 | 13,510 | 9,800 |
| Net fees and commissions | 804 | 2,983 | 3,892 | 3,705 | 3,355 |
| Other operating income | 162 | 602 | 1,296 | 802 | 1,194 |
| Total operating income | 4,415 | 16,380 | 21,329 | 18,017 | 14,349 |
| Operating costs | 1,671 | 6,201 | 8,231 | 7,972 | 7,803 |
| Pre-impairment operating profit | 2,744 | 10,179 | 13,098 | 10,045 | 6,546 |
| Loan and other impairment charges | 92 | 343 | 1,879 | 10 | -1,220 |
| Operating profit | 2,651 | 9,836 | 11,219 | 10,035 | 7,766 |
| Other non-operating items (net) | n.a. | n.a. | 71 | 46 | 92 |
| Tax | 1,012 | 3,755 | 3,930 | 3,548 | 2,958 |
| Net income | 1,639 | 6,081 | 7,360 | 6,533 | 4,900 |
| Other comprehensive income | 177 | 658 | 986 | -1,476 | -589 |
| Fitch comprehensive income | 1,816 | 6,739 | 8,346 | 5,057 | 4,311 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 118,628 | 440,111 | 417,550 | 396,419 | 359,698 |
| - Of which impaired | 833 | 3,091 | 4,012 | 3,444 | 3,617 |
| Loan loss allowances | 1,865 | 6,919 | 6,994 | 5,535 | 5,106 |
| Net loans | 116,763 | 433,192 | 410,556 | 390,884 | 354,592 |
| Interbank | n.a. | n.a. | 6,244 | 7,170 | 2,779 |
| Derivatives | 5,979 | 22,182 | 25,229 | 21,832 | 12,984 |
| Other securities and earning assets | 35,693 | 132,421 | 133,372 | 109,496 | 73,211 |
| Total earning assets | 158,435 | 587,795 | 575,401 | 529,382 | 443,566 |
| Cash and due from banks | 31,224 | 115,842 | 101,486 | 126,254 | 186,504 |
| Other assets | 2,704 | 10,030 | 9,643 | 9,717 | 8,711 |
| Total assets | 192,363 | 713,667 | 686,530 | 665,353 | 638,781 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 154,355 | 572,657 | 557,031 | 535,850 | 525,824 |
| Interbank and other short-term funding | 6,950 | 25,786 | 15,364 | 22,573 | 15,027 |
| Other long-term funding | 5,613 | 20,823 | 21,800 | 26,866 | 25,338 |
| Trading liabilities and derivatives | 5,790 | 21,480 | 24,240 | 19,043 | 14,350 |
| Total funding and derivatives | 172,708 | 640,746 | 618,435 | 604,332 | 580,539 |
| Other liabilities | 4,249 | 15,765 | 15,665 | 14,518 | 15,251 |
| Preference shares and hybrid capital | n.a. | n.a. | n.a. | n.a. | 244 |
| Total equity | 15,406 | 57,156 | 52,430 | 46,503 | 42,747 |
| Total liabilities and equity | 192,363 | 713,667 | 686,530 | 665,353 | 638,781 |
| Exchange rate | | USD1 = ILS3.71 | USD1 = ILS3.627 | USD1 = ILS3.519 | USD1 = ILS3.15 |

Source: Fitch Ratings, Fitch Solutions, Bank Hapoalim B.M.

## Key Ratios

| | 30 Sep 24 | 31 Dec 23 | 31 Dec 22 | 31 Dec 21 |
|---|---|---|---|---|
| **Ratios (%; annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 2.7 | 2.6 | 2.4 | 2.0 |
| Net interest income/average earning assets | 3.0 | 2.9 | 2.8 | 2.4 |
| Non-interest expense/gross revenue | 37.7 | 38.6 | 44.5 | 54.6 |
| Net income/average equity | 14.8 | 14.9 | 14.7 | 11.8 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 0.7 | 1.0 | 0.9 | 1.0 |
| Growth in gross loans | 5.4 | 5.3 | 10.2 | 16.0 |
| Loan loss allowances/impaired loans | 223.8 | 174.3 | 160.7 | 141.2 |
| Loan impairment charges/average gross loans | 0.1 | 0.5 | 0.0 | -0.4 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 11.9 | 12.0 | 11.3 | 11.0 |
| Tangible common equity/tangible assets | 8.0 | 6.9 | 6.7 | 6.0 |
| Basel leverage ratio | 7.2 | 6.9 | 6.3 | 6.0 |
| Net impaired loans/common equity Tier 1 | -6.7 | -5.7 | -4.5 | -3.5 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 76.9 | 75.0 | 74.0 | 68.4 |
| Liquidity coverage ratio | 132.0 | 129.0 | 122.0 | 124.0 |
| Customer deposits/total non-equity funding | 92.5 | 93.8 | 91.6 | 92.8 |
| Net stable funding ratio | 125.0 | 128.0 | 130.0 | 141.0 |

Source: Fitch Ratings, Fitch Solutions, Bank Hapoalim B.M.

## Support Assessment

| Commercial Banks: Government Support | |
| --- | --- |
| Typical D-SIB GSR for sovereign's rating level (assuming high propensity) | a- or bbb+ |
| Actual jurisdiction D-SIB GSR | a- |
| Government Support Rating | a- |
| | |
| **Government ability to support D-SIBs** | |
| Sovereign Rating | A/ Negative |
| 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 would provide support to Hapoalim, if needed. Fitch believes Israel's ability and propensity to support Hapoalim are very 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

FitchRatings **Bank Hapoalim B.M.**

Banks
Ratings Navigator

### 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.

**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.

### 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 |

### 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. |

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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.

DISCLAIMER & DISCLOSURES