FitchRatings

Emirates Islamic Bank PJSC

Key Rating Drivers

Support Drives IDRs: Emirates Islamic Bank PJSC's (EI) Issuer Default Ratings (IDRs) are in line with those of its 99.9% shareholder, Emirates NBD Bank PJSC (ENBD; A+/Stable/F1) because we view EI as an integral subsidiary of ENBD. The latter's IDRs are based on potential support from the UAE authorities, which Fitch Ratings believes would flow through to EI.

We believe this support would be forthcoming because of EI's role and track record in the group, the very high reputational risk to ENBD of an EI default, and the Central Bank of the UAE's (CBUAE) propensity to support as EI and ENBD operate in the same market.

EI's VR reflects the bank's niche franchise, weak underlying asset quality that is expected to come under renewed pressure, and only adequate capitalisation considering asset quality issues. The VR also factors in a generally stable retail funding profile and healthy liquidity.

Niche Franchise: EI benefits from its association with ENBD. However, the bank still has a moderate franchise in the UAE, with an approximate 2% share of system assets and deposits despite its large branch network and ranking as the third-largest Islamic bank in the country.

Still Weak Underlying Asset Quality: EI's asset quality has improved due to tightened underwriting, lower impaired financing origination and write-offs. Given the current weakened operating environment, Fitch expects EI's asset quality to come under pressure, particularly from its retail portfolio which accounts for 63% of net financing. The impaired financing ratio increased to 8.2% at end-1H20 (7.6% at end-2019), higher than the peer average and could increase further once the CBUAE's six-month credit extension expires.

Only Adequate Capitalisation: EI's common equity Tier 1 (CET1) ratio of 20% at end-2019 compared well against peers. The bank's de-risking strategy, coupled with healthy profitability and low financing growth in 2018 and 2019, helped strengthen capital ratios. Nevertheless, Fitch views EI's capitalisation as only adequate given its underlying weak asset quality and significant financing book concentration.

Profitability Under Renewed Pressure: EI's profitability improved in 2018-2019 on asset quality stabilization. EI's operating profit to risk-weighted assets ratio improved to 2.5% in 2019 from 0.2% in 2016. However, profitability is being pressured again from higher impairment charges, which absorbed 97% of pre-impairment operating profit in 1H20.

Stable Funding; Healthy Liquidity: EI's high proportion of retail deposits and current and savings accounts (63% of deposits at end-2019) provides the bank with a stable deposit base. The financing-to-deposits ratio increased to 98% at end-1H20 (91% at end-2019) due to a slight decline in deposits coupled with 7% financing growth but remains adequate. Net liquid assets cover around 25% of total deposits.

Rating Sensitivities

IDRs: EI's IDRs are equalised with ENBD's. Accordingly, EI's IDRs are sensitive to a change in ENBD's IDRs. ENBD's IDRs are sensitive to a change in the UAE authorities' ability or willingness to provide support. EI's IDRs could also be downgraded if EI becomes less core to the group and Fitch believes ENBD's propensity to support has weakened, which is unlikely.

VR: An increase in the bank's risk appetite or asset quality deterioration leading to materially weaker capitalisation and loss absorption capacity could put negative pressure on the VR. The VR could be upgraded if the bank demonstrates further improvements in its asset quality metrics and maintains adequate capital levels and consistent profitability.

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	bb-
Support Rating	1

Outlooks

Long-Term Foreign-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

GCC Banks Credit Profile to Weaken Despite Unprecedented Stimulus (April 2020)
Coronavirus Fallout Will Pressure UAE Banks' Credit Profiles (March 2020)
Fitch Ratings 2020 Outlook: Gulf Cooperation Council Banks (December 2019)
GCC Banks: 2019 Compendium (November 2019)

Financial Data

Emirates Islamic Bank PJSC

	30 Jun 20	31 Dec 19
Total assets (USDm)	17,479.9	17,638.0
Total assets (AEDm)	64,195.0	64,775.5
Total equity (AEDm)	8,316.9	8,305.6

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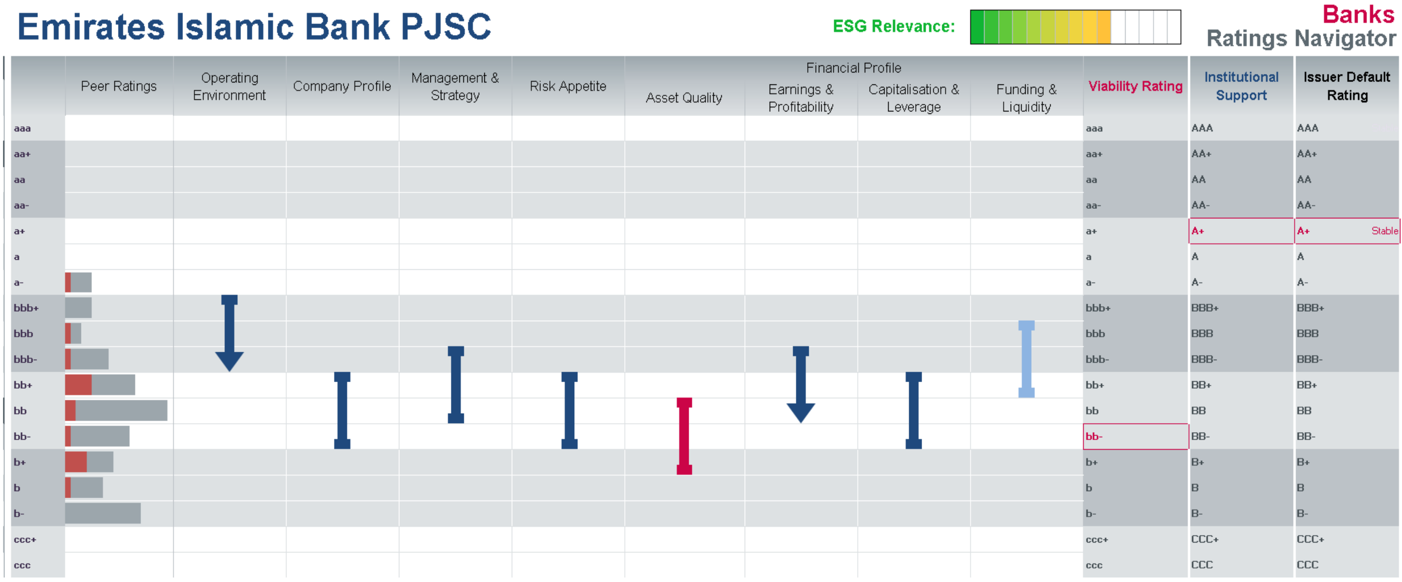
Ratings Navigator



Institutional Support

Direct Parental Support Drives IDR

EI's IDRs reflect Fitch's view that EI is a key and integral subsidiary of its 99.9% shareholder, ENBD. In turn, ENBD's IDRs are based on potential support from the UAE authorities, if needed. In Fitch's view, this support would flow through to EI given EI's role and record in the group (offering retail, SME and small corporate Islamic finance services), the very high reputational risk to ENBD of an EI default, as well as the CBUAE's inclination to favour support as EI operates in the same home market as ENBD.

Fitch also believes that any required support would be immaterial given EI's small size relative to the parent and particularly the sovereign. EI's share in ENBD's consolidated assets was about 9% at end-1H20.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive ⇩ Negative
⇳ Evolving ▫ Stable

Institutional Support			Value
Parent IDR			A+
Total Adjustments (notches)			+0
Institutional Support:			**A+**
Support Factors (negative)	**Equalised**	**1 Notch**	**2+ Notches**
Parent ability to support and subsidiary ability to use support			
Parent/group regulation	✓		
Relative size	✓		
Country risks	✓		
Parent Propensity to Support			
Role in group	✓		
Potential for disposal	✓		
Implication of subsidiary default	✓		
Integration		✓	
Size of ownership stake	✓		
Support track record	✓		
Subsidiary performance and prospects		✓	
Branding			✓
Legal commitments			✓
Cross-default clauses			✓

Significant Changes

Coronavirus Fallout Will Pressure UAE Banks' Credit Profiles

UAE banks' credit profiles face deterioration due to the economic effects of the coronavirus and the slump in oil prices. The coronavirus-related fallout threatens several sectors and events that are critical to the UAE economy, including tourism and hospitality, real estate and construction, retail and wholesale trade and transportation, along with the Dubai Expo 2020. This will be compounded by lower oil prices, particularly through reduced lending growth. Fitch has therefore revised its outlook on the UAE operating environment to negative.

Asset Quality to Weaken

Consequences of the coronavirus and lower oil prices will weaken banks' asset quality due to deteriorating business conditions in retail and wholesale trade, and in the real estate and construction sectors, which accounted for 29% of total sector lending at end-2019. Operating conditions in the real-estate sector were already very difficult due to persistent oversupply, lower oil prices and weaker business confidence putting pressure on property prices. Recent measures by the CBUAE to increase maximum loan-to-value ratios and to allow real-estate lending up to 30% of total loans may increase banks' asset-quality vulnerability to falling real-estate prices. UAE banks' potential problem loans (Stage 2 and Stage 3 loans under IFRS 9) are already high (averaging 10%-20% of gross loans) and are likely to increase. The Stage 3 loans ratio for Fitch rated UAE banks averaged 4.7% at end-2019 and we expect faster Stage 3 inflows due to deteriorating credit conditions. Nevertheless, the true extent of loan performance deterioration will be masked by loan deferral programmes and regulatory flexibility for banks to recognise impairments under IFRS 9.

Reasonable Financial Metrics

Capital and liquidity should remain rating strengths in the short term. The sector's CET1 ratio of 14.1% at end-2019 provides adequate loss-absorption buffers. Fitch expects stable capital levels in 2020 owing to low loan growth and still reasonable internal capital generation. Funding and liquidity are sound across UAE banks and we expect this to remain the case. Banks with stronger franchises benefit more from favourable conditions, notably owing to their higher proportion of low-cost deposits. Deposits have proved behaviourally stable despite being contractually short term. Government and GRE deposits accounted for 29% of total deposits at end-2019. We do not expect government and GRE deposit withdrawals to be significant, despite the tough operating environment conditions. Banks' profitability will be hit by lower interest rates and higher Loan Impairment Charges (LICs).

Support Packages Will Soften but Not Eliminate Negative Impact on Bank VRs

The CBUAE's Targeted Economic Support Scheme (TESS) package for a total amount of AED100 billion (USD27 billion) will reduce liquidity and capital costs for banks. The Targeted Economic Support Scheme is a two-fold package, which includes access to a zero-cost facility allowing banks to provide debt service holidays of both principal and interest to customers until December 2020, and a capital buffer relief that increases banks' ability to lend and reduces minimum regulatory capital requirements. This will allow banks to extend loans to struggling borrowers and avoid defaults in the short term, although we believe that in the longer term not all borrowers will be able to weather the impact of the economic downturn unscathed.

The CBUAE has also increased its maximum loan-to-value ratios for first-time buyers by 5% and revised its existing real-estate lending limits. More significantly, it has eased prudential liquidity ratios, including a reduction by 30% of the minimum liquidity coverage ratio (LCR; 70% instead of 100%), a 50% reduction in the reserve requirements against demand deposits (to 7% from 14%) and most recently a 10% relaxation in the Net Stable Funding Ratio (NSFR) and Advances to Stable Resources Ratio (ASRR). This has provided a boost to banks' liquidity, which had shown some signs of pressure in March 2020.

Nevertheless, such relaxations could lead to weaker underwriting standards and higher-risk appetite through higher concentration and lower collateralisation, which could ultimately result in weaker asset quality amid more challenging operating conditions.

Company Summary and Key Qualitative Assessment Factors

ENBD Group Supports Franchise

EI was launched in 2004 to offer sharia-compliant banking services. EI and ENBD operate as separate legal entities with different banking licences, although EI's company profile benefits from its association with ENBD thanks to common risk controls and back-office functions. In 2012, the Dubai government asked ENBD to acquire Dubai Bank and, as a result, the majority of assets and liabilities were transferred to EI.

EI is the third-largest Islamic bank in the UAE in terms of assets, after Dubai Islamic Bank and Abu Dhabi Islamic Bank. EI has a moderate franchise in the UAE with only 2% of total banking system assets but it accounts for more than 10% of the UAE Islamic banks' total assets. The bank's large branch presence, despite its fairly small market share, reflects its retail focus.

Retail Focused Business Model

EI's business model is largely focused on retail banking, which represents around 60% of the total financing book. EI is increasing its focus on affluent and high-net-worth individuals as they provide the bank with a stable deposit base and are a key driver for fee income through wealth management. The bank is also increasingly targeting Emirati customers, generally judged as less risky and more profitable than expatriates, especially in light of the current economic conditions. Retail banking generates around 80% of the bank's operating revenues. Despite EI's focus on UAE nationals and affluent customers, we view its business model as relatively more volatile than peers given its high exposure to retail and mid-corporates.

Tightened Underwriting Standards

EI has tightened its underwriting standards and the vast majority of its large stage 3 exposures are related to legacy financing. Small business exposures are on a rundown basis (representing less than 5% of the financing book) as they were affected by tighter liquidity and a drop in commodity prices in 2015/2016, which resulted in higher skip cases.

At end-2019, 56% of the retail portfolio was secured against mainly mortgages and vehicles and around 97% of personal financing was salary assigned. Personal financing is based on salary transfers with a maximum debt service burden of 50%. The proportion of financing to UAE nationals has increased to 67% of the retail portfolio. The average contractual financing to value of the mortgage portfolio was 62% at end-2019.

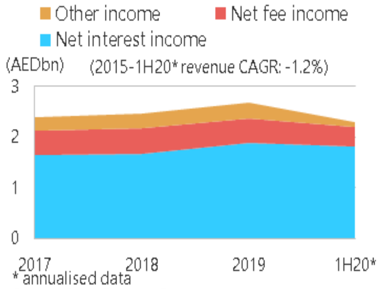
EI's financing book is less concentrated than local and regional peers' given the bank's retail focus. The top 20 exposures (funded and unfunded) represented 112% of total equity at end-2019 and the top 20 funded exposures accounted for 19% of gross financing. Trade and real estate financing represent the bulk of the wholesale book at 41% and 20%, respectively, at end-2019. Despite a more conservative risk appetite, we expect EI's underlying asset quality to deteriorate given the weakening operating environment and EI's substantial exposure to the retail sector.

Execution Could Prove Variable Over the Different Economic Cycles

Strategic objectives and high growth levels were previously opportunistic and short-term oriented. Since the 2015-2016 SME crisis, EI has focused on de-risking through a de-facto balance-sheet clean-up, writing off legacy exposures and reducing its overall exposure to potentially vulnerable segments (i.e. real estate). Cleaning up the bank's balance-sheet has been the main objective rather than gaining market share.

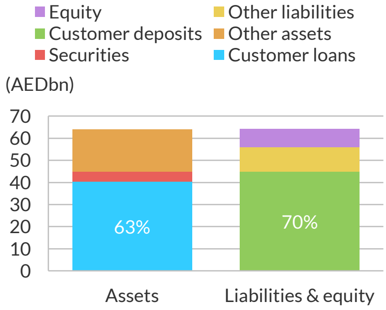
EI's execution in 2019 was stable and asset quality continued to improve, supported by write-offs and low impaired financing origination. Profitability was also supported by higher financing margins and lower financing impairments charges (FICs). However, the trend has started to reverse with the impaired financing ratio increasing to 8.2% at end-1H20 (7.6% at end-2019) and net income significantly dropping to AED11.8 million in 1H20 from AED673 million in 1H19 due to a sharp increase in FICs. EI's execution could be highly variable over the different economic cycles and come under further pressure due to its exposure to volatile sectors.

Revenue Breakdown



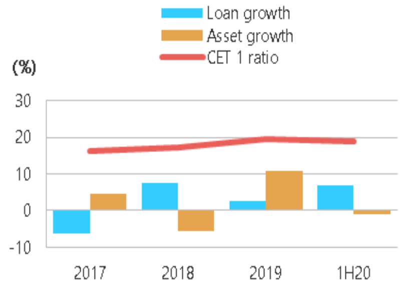
*annualised data
Source: Fitch Ratings, EI

Balance Sheet, Jun 20



Source: Fitch Ratings, EI

Asset Growth



Source: Fitch Ratings, EI

Summary Financials and Key Ratios

	30 Jun 20		31 Dec 19	31 Dec 18	31 Dec 17
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(AEDm)	(AEDm)	(AEDm)	(AEDm)
	Reviewed – unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net financing and dividend income	245	901.3	1,894.6	1,676.3	1,641.3
Net fees and commissions	51	187.5	481.6	496.4	477.7
Other operating income	14	51.2	294.1	290.8	273.3
Total operating income	310	1,140.0	2,670.3	2,463.5	2,392.3
Operating costs	146	537.5	1,170.1	1,247.8	1,009.6
Pre-impairment operating profit	164	602.5	1,500.2	1,215.7	1,382.7
Financing and other impairment charges	159	585.4	439.2	291.4	680.7
Operating profit	5	17.1	1,061.0	924.3	702.0
Other non-operating items (net)	-1	-5.3	n.a.	n.a.	n.a.
Tax	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	3	11.8	1,061.0	924.3	702.0
Other comprehensive income	0	-0.5	116.5	-22.9	-22.4
Fitch comprehensive income	3	11.3	1,177.5	901.4	679.6
Summary balance sheet					
Assets					
Gross financing	12,004	44,083.4	41,227.4	40,154.7	37,380.6
- Of which impaired	985	3,616.1	3,113.2	3,304.8	3,844.1
Financing loss allowances	1,016	3,731.6	3,730.9	3,982.8	3,545.2
Net Financing	10,988	40,351.8	37,496.5	36,171.9	33,835.4
Interbank	3,813.2	14,003.9	16,141.4	12,202.9	18,260.2
Derivatives	35	128.0	95.4	n.a.	n.a.
Other securities and earning assets	1,359	4,992.3	4,266.8	3,000.3	2,271.5
Total earning assets	16,195.0	59,476.0	58,000.1	51,375.1	54,367.1
Cash and due from banks	847.9	3,113.9	5,151.5	6,222.8	6,180.4
Other assets	437	1,605.1	1,623.9	781.5	1,333.9
Total assets	17,480	64,195.0	64,775.5	58,379.4	61,881.4
Liabilities					
Customer deposits	12,266	45,046.4	45,322.7	41,609.7	41,822.5
Interbank and other short-term funding	1,251	4,596.0	4,922.4	4,143.5	7,122.5
Other long-term funding	1,001	3,677.3	3,679.9	3,685.2	3,690.3
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding	14,518.6	53,319.7	53,925.0	49,438.4	52,635.3
Other liabilities	659	2,420.0	2,461.4	1,729.8	1,936.9
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	2,265	8,316.9	8,305.6	7,211.2	7,309.2
Total liabilities and equity	17,480	64,195.0	64,775.5	58,379.4	61,881.4
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions, Bank

Summary Financials and Key Ratios

	30 Jun 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	2.5	2.2	1.6
Net financing income/average earning assets	3.1	3.5	3.2	3.1
Non-financing expense/gross revenue	47.2	43.8	50.7	42.2
Net income/average equity	0.3	13.5	13.2	10.0
Asset quality				
Impaired financing ratio	8.2	7.6	8.2	10.3
Growth in gross financing	6.9	2.7	7.4	-6.2
Financing loss allowances/impaired financing	103.2	119.8	120.5	92.2
Financing impairment charges/average gross financing	2.6	1.1	0.8	1.7
Capitalisation				
Common equity Tier 1 ratio	18.9	19.6	17.1	16.2
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	17.1	16.2
Tangible common equity/tangible assets	13.0	12.8	12.4	11.8
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired fianncing/common equity Tier 1	n.a.	-7.5	-9.4	4.1
Net impaired fianncing/Fitch Core Capital	n.a.	n.a.	-9.4	4.1
Funding and liquidity				
Financing/customer deposits	97.9	91.0	96.5	89.4
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	84.5	84.1	84.2	79.5
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Bank

Key Financial Metrics - Latest Developments

Still Weak Underlying Asset Quality

EI's Stage 3 (impaired financing) ratio was on a declining trend until 2019 (reaching 7.6% at end-2019 from 10.3% at end-2017) as a result of the bank's de-risking strategy but remained higher than the sector average of around 4.7%. The trend reversed in 1H20 and the Stage 3 financing ratio increased to 8.2% at end-1H20 despite AED634 million of write-offs. The impaired financing generation ratio was a high 2.6% in 1H20. Despite weaker economic conditions, EI grew its financing book by 7% in 1H20 (mainly in the retail segment), which could lead to further asset quality deterioration. Stage 2 financing dropped to 3% of gross financing at end-1H20 (5% at end-2019) as around AED646 million of Stage 2 financing moved to Stage 3 in 1H20. Stage 2 financing does not capture the full stock of restructured financing (around 5% at end-2019) as restructured exposures move to Stage 1 after 12 months if performing as scheduled. The six-month credit extension may provide debt relief in the short term, but forbearance measures risk delaying the full recognition of asset quality deterioration. At end-1H20 AED2.1bn of EI's financing book (around 5% of total financing) was under the TESS scheme. Total reserve coverage of Stage 3 financing declined to 103% at end-1H20 from 120% at end-2019 but remains adequate. Coverage of Stage 3 and Stage 2 financing by specific provisions was also adequate at 72% and 30%, respectively, at end-1H20.

Profitability Under Renewed Pressure

Earnings and profitability metrics had previously been undermined by high FICs but improved in 2018-2019 on asset quality stabilisation. Consequently EI's operating profit-to risk-weighted assets ratio improved to 2.5% in 2019 from 0.2% in 2016. EI's net financing margin of 3.5% in 2019 compares well with peers, supported by its retail focus and high portion of current and savings accounts. The net financing margin dropped to 3.1% in 1H20 due to lower profit rates and profitability has come under renewed pressure mainly due to higher FICs. In 1H20 FICs absorbed 97% of pre-impairment operating profit and net income dropped to AED11.8 million from AED673 million in 1H19.

Only Adequate Capitalisation

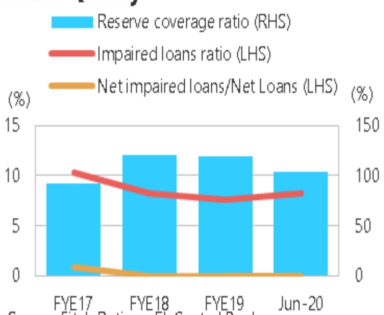
EI's de-risking strategy accentuated the positive effect of the 2016 capital injection from the parent on its capital metrics. Strengthening profitability and low financing growth in 2018 and 2019 also helped boost capital ratios. EI's CET1 ratio stood at 20% at end-2019 (up from 17% at end-2018), comfortably above the minimum regulatory requirements and comparing well against peers. Nevertheless, Fitch views EI's capitalisation as only adequate in light of its weak underlying asset quality, financing book concentration and exposure to volatile sectors. EI maintained its tangible leverage ratio at 13% at end-1H20 as the increase in earning assets was offset by lower cash balances and due from banks. However, the CET1 ratio declined to 18.9% at end-1H20 due to higher risk weighted assets. The increase in FICs will put downward pressure on retained earnings and capitalisation. EI does not distribute dividends, and Fitch expects the bank to be able to raise capital from its parent if needed.

Stable Funding; Healthy Liquidity

EI is mainly funded by customer deposits, which account for more than 80% of its non-equity funding. The deposit base is less concentrated than peers' due to EI's retail focus, with retail deposits forming 40% of the deposit base. At end-2019, the 20-largest deposits made up about a quarter of total customer accounts. EI's high proportion of current and savings accounts (63% of deposits at end- 2019) provides the bank with a lower-cost and more stable deposit base. EI also has good access to the capital markets and has two sukuk tranches in issue totalling USD1 billion, with both tranches maturing in May 2021.

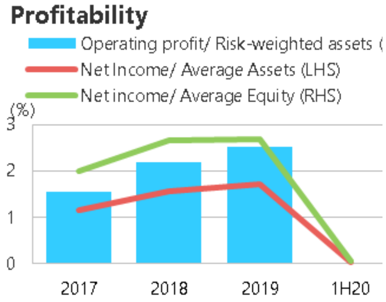
The financing to deposits ratio increased to 98% at end-1H20 (91% at end-2019) due to a slight decline in deposits coupled with 7% financing growth but remains adequate. Net liquid assets cover around 25% of total deposits. However, liquidity buffers could come under pressure as the repo facility extended to banks under the TESS scheme to support the private sector is against pledged collateral.

Asset Quality



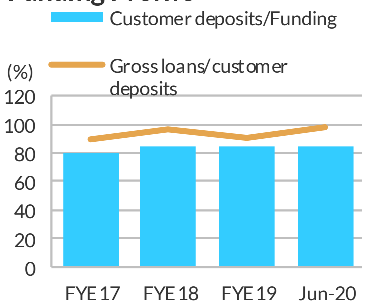
Source: Fitch Ratings, EI, Central Bank

Profitability



Source: Fitch Ratings, EI, Central Bank

Funding Profile



Source: Fitch Ratings, EI, Central Bank

Environmental, Social and Governance Considerations

As an Islamic bank EI needs to ensure compliance of its entire operations and activities with sharia principles and rules. This entails additional costs, processes, disclosures, regulations, reporting and sharia audit. This also results in a Governance Structure relevance score of '4' for the bank (in contrast to a typical ESG relevance score of '3' for comparable conventional banks), which has a negative impact on the bank's credit profile in combination with other factors.

In addition, Islamic banks have an exposure to social impacts relevance score of '3' (in contrast to a typical ESG relevance score of '2' for comparable conventional banks), which reflects that Islamic banks have certain sharia limitations embedded in their operations and obligations, although this only has a minimal credit impact on the entities.

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 to the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

FitchRatings

Emirates Islamic Bank PJSC

Banks
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Credit-Relevant ESG Derivation

Emirates Islamic Bank PJSC has 1 ESG rating driver and 5 ESG potential rating drivers

- Emirates Islamic Bank PJSC has exposure to board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions which, in combination with other factors, impacts the rating.
- Emirates Islamic 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.
- Emirates Islamic Bank PJSC has exposure to 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 but this has very low impact on the rating.
- Emirates Islamic Bank PJSC has exposure to operational implementation of strategy but this has very low impact on the rating.
- Emirates Islamic Bank PJSC has exposure to organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership but this has very low impact on the rating.
- Emirates Islamic Bank PJSC has exposure to quality and frequency of financial reporting and auditing processes but this has very low impact on the rating.

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

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
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

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	3	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

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	4	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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy

G Scale: 5, 4, 3, 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 left-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 the [number of] general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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.

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.