FitchRatings

Banks
Universal Commercial Banks
Iraq

Region Trade Bank for Investment and Finance Private Shareholding

Ratings

Foreign Currency	
Long-Term IDR	CCC+
Short-Term IDR	C
Viability Rating	ccc+
Government Support Rating	ns
Sovereign Risk (Iraq)	
Long-Term Foreign-Currency IDR	B-
Country Ceiling	B-
Outlook	
Sovereign Long-Term Foreign-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Fitch Affirms Iraq's Region Trade Bank at 'CCC+' (June 2022)

Iraq (February 2022)

Fitch Affirms Iraq at 'B-'; Outlook Stable (January 2022)

2022 Outlook: Middle East Banks (December 2021)

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Key Rating Drivers

Region Trade Bank for Investment and Finance Private Shareholding's (RTB) Issuer Default Ratings (IDRs) are driven by its standalone strength, as indicated by its Viability Rating (VR; ccc+). RTB's VR is constrained by a weak operating environment and reflects the bank's limited franchise, unstable business model, volatile and concentrated customer deposit base and weak profitability. The VR also reflects the bank's conservative risk appetite, and high capital and liquidity ratios. The bank's VR is below the implied VR of 'b-' due to its business profile (negative).

Weak Operating Environment: The Iraqi operating environment is constrained by a high dependence of the economy on the oil sector, the state's high involvement in supporting credit growth, projects and job creation, a weak regulatory and governance framework and a fragile business environment. Higher oil prices are expected to support real GDP growth (8.6% expected in 2022, up from 3.8% in 2021).

Limited Franchise; Unstable Business Model: RTB is a privately owned bank, headquartered in Erbil, with minimal market shares in Iraq, no competitive advantages and limited distribution capabilities. The Iraqi banking sector is dominated by three state-owned banks (SOBs), and private banks have small market shares.

Conservative Risk Appetite: RTB's loan book is minimal and loan growth is weak and unstable given limited lending opportunities, the bank's low risk appetite and tightened underwriting standards. Liquid assets including cash and balances at the Central Bank of Iraq (CBI), and interbank placements with foreign banks were 60% of total assets at end-2021.

Asset Quality Sensitive to Sovereign: Cash (38% of total assets at end-2021), fixed assets (28%), interbank placements with foreign banks (15%) and balances with the CBI (11% including mandatory reserves) drive our assessment of RTB's asset quality. These assets are highly volatile and are sensitive to and driven by sovereign deposits and local business opportunities.

Weak Profitability: Large non-to-low-interest-earning liquid assets, non-earning fixed assets and volatile impairment charges weigh on RTB's profitability. Operating profit is below 2% of average total assets. Operating profit originates mainly from non-interest income. RTB's profitability is likely to remain volatile due to a lack of scale and political instability in Iraq.

High Capital Ratios: RTB's total capital adequacy ratio (CAR) of 92.2% at end-2021 was substantially above the regulatory minimum of 28% (specific to the bank due to its high concentrations versus Iraq's 12%). The tangible leverage ratio is high (38% at end-2021). Capital ratios are likely to remain high given RTB's cash-oriented business model.

Rapid balance-sheet growth could bring some volatility to RTB's tangible leverage ratio. Our assessment of capital is negatively affected by the weak domestic operating environment, an unstable business model and low risk weight density.

High Liquidity Mitigates Funding Volatility: RTB's loans/deposits ratio is low (16.3% at end-2021). Excess liquidity, coming from equity or government-related deposits, is mainly kept as cash or placed with the CBI. High-quality liquid assets were a high 60% of total assets at end-2021 and covered more than 100% of customer deposits. Nevertheless, the bank's funding is highly sensitive to concentrated and volatile government deposits.

Ratings Sensitivities

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

A downgrade of the sovereign rating could result in a downgrade of the bank's Long-Term IDR and VR. A deterioration in the domestic operating environment weakening the bank's financial profile, would lead to a downgrade of the VR. A rapid expansion in lending in Iraq, weakening the bank's asset quality and materially absorbing its capital, would also be negative for the VR.

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

An upward revision of the operating environment, which would likely come from a sovereign upgrade, could lead to an upgrade of the bank's Long-Term IDR and VR, provided RTB's financial profile remains stable.

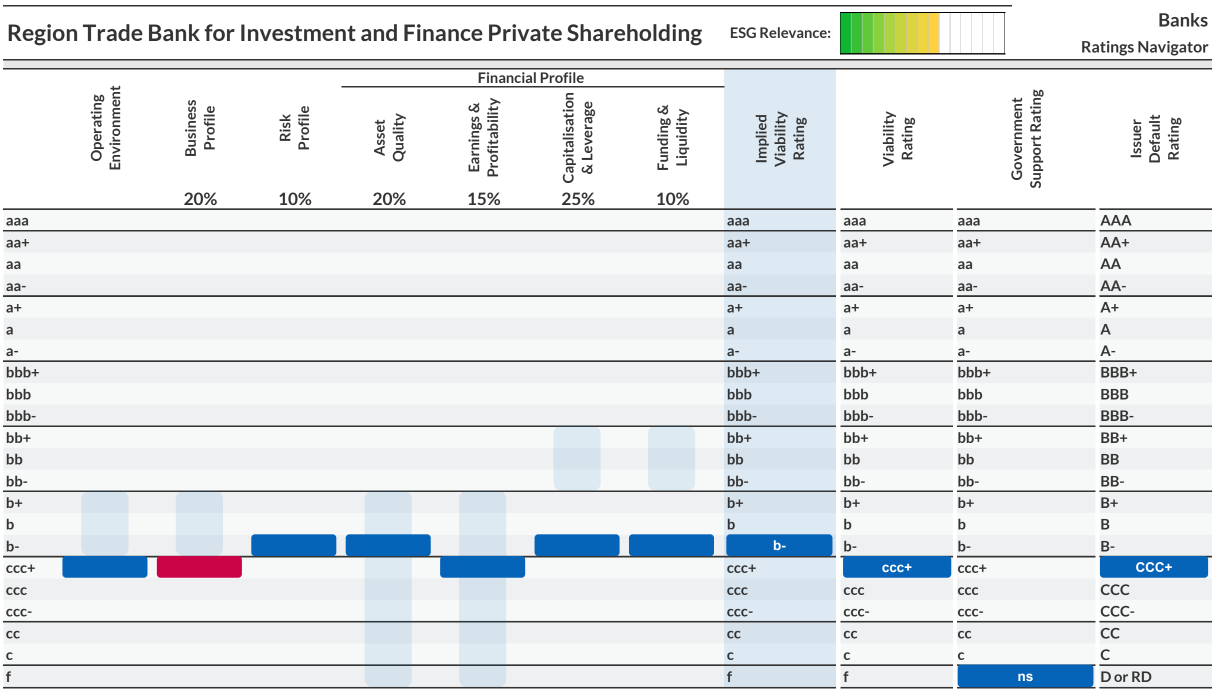
Significant Changes from Last Review

Sovereign Rating on a Stable Outlook

In March 2021, Fitch affirmed the Iraqi sovereign rating at 'B-' and revised its Outlook to Stable from Negative to reflect a smaller-than-expected decline in foreign reserves and materially higher oil prices relative to Fitch's baseline in April 2020, when the agency had assigned the Negative Outlook. Iraq's 'B-' rating reflects its high commodity dependence, weak governance, high political risk and undeveloped banking sector, balanced by high FX reserves and low interest costs on government debt.

In January 2022, Fitch affirmed Iraq's sovereign rating at 'B-'/Stable with fiscal surplus expected to reach 15.6% of GDP in 2022 and real GDP to grow by 8.6% and 3.3% in 2022 and 2023, respectively. This is assuming oil prices average USD105/barrel (bbl) and USD85/bbl in 2022 and 2023, respectively. A USD10/bbl increase in the average price relative to our forecast would boost the fiscal surplus by 5% of GDP, assuming unchanged spending, and an additional 250,000 bbl/d of oil exports would boost it by 3% of GDP.

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 'ccc+' is below the 'b' category implied score for Iraq, due the following adjustment reasons: size and structure of economy (negative) and financial market development (negative).

The business profile score of 'ccc+' is below the 'b' category implied score, due to the following adjustment reasons: business profile (negative) and market position (negative).

The capitalisation and leverage score of 'b-' is below the 'bb' category implied score due to the following adjustment reasons: risk profile and business model (negative) and leverage and risk-weight calculation (negative).

The funding and liquidity score of 'b-' is below the 'bb' category implied score due to the following adjustment reason: deposit structure (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Weak Operating Environment

Fitch's assessment of the Iraqi operating environment at 'ccc+' is significantly constrained by a number of factors, including the high dependence of the economy on the oil sector, which is inherently cyclical. Oil proceeds account for about 85%-90% of fiscal revenue, and a USD10/barrel increase in the oil price leads to a 3%-of-GDP rise in government revenue. The second constraining factor is the high involvement of the state in supporting credit growth, projects and job creation, and the third factor is the weak regulatory and governance framework and business environment.

Ongoing conflict, security deterioration and high political tensions have resulted in Iraq being one of the most unattractive business environments in the Middle East and North Africa. High levels of crime and security risks pose the greatest barrier to firms in the country with an overall Fitch Solutions' Crime & Security Risk score of 23.3 out of 100, ranking it 17th out of 18 MENA markets and 182nd out of 201 markets globally. Iraq is ranked 172 out of 190 economies in the World Bank's *Ease of Doing Business* indicator in 2020. Social, economic and political instability will continue to put pressure on Iraqi banks' operating environment.

Undeveloped and Highly Concentrated Banking Sector

The Iraqi banking sector is undeveloped with low banking penetration rates (the credit/GDP ratio was only 15% at end-2021), in part due to a lack of confidence in the banking system. Domestic capital markets are significantly undeveloped, and banks do not have access to international capital markets. The domestic banking sector comprises 72 banks (seven SOBs, 53 domestic private banks and 12 branches of foreign banks). However, SOBs dominate the Iraqi banking sector with more than 80% of total banking sector assets and deposits, with a significant lack of financial transparency at the two largest SOBs (Rafidain Bank and Rasheed Bank) as noted by the International Monetary Fund (IMF). These two largest public sector banks account for about 60% of total banking sector assets.

A large number of private sector banks were money transfer and currency exchange houses that were converted into banks after meeting the CBI's minimum paid-up capital requirement (IQD250 billion, or almost USD171.3 million). Some banks function largely as treasuries, deploying excess liquidity into CBI placements with no real banking business models, amid a low banking penetration rate and a large number of private sector banks with fragmented market shares.

Business Profile

No Discernible Franchise; Unstable Business Model

RTB is a privately owned bank headquartered in Erbil, the Kurdistan Region of Iraq, and falls under the CBI's regulation. The bank is listed on the Iraq Stock Exchange and is equally owned by 10 Iraqi shareholders, mainly business people from the Kurdistan Region of Iraq. Like other Iraqi private banks, RTB has minimal market shares in Iraq (less than 1% of banking sector assets and deposits; negligible for loans), no competitive advantages and limited distribution capabilities given its small network of five branches. RTB operates only in Iraq.

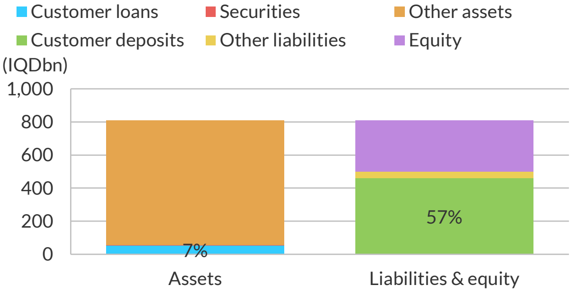
The bank's business model is volatile and sensitive to the size of sovereign deposits. RTB is mainly involved in trade finance transactions (5%/16% of total assets at end-2021/end-2020), international transfers and discounting of bills of exchange. Cash lending is minimal (7% of total assets), given limited lending opportunities.

Strategy and Execution Are Constrained by the Domestic Operating Environment

RTB's strategy is set by the board of directors, which comprises seven members, six of whom are non-executive (the Chief Executive is a board member) and five of whom are classified as independent (the Chairwoman is not independent). Board members hold only negligible shares in the bank. Fitch believes RTB's corporate governance is in line with CBI's requirements, but views governance framework in Iraq as weak by international standards. This includes weak CBI enforceability, light financial publication, local external auditing and a lack of information on related-party lending.

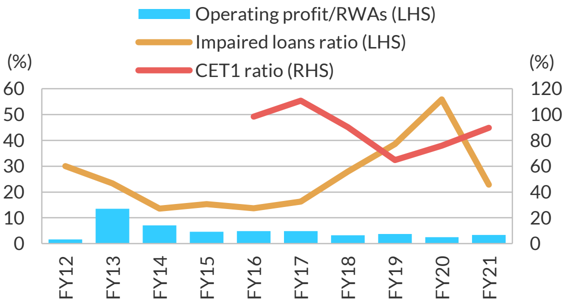
RTB will continue to clean up its loan portfolio. Positively, the Stage 3 loans ratio declined to 23% at end-2021 from 56% at end-2020, supported by write-offs (45% of average gross loans in 2021), and the bank targets to push the ratio down to 6% by end-2023. The bank expects loans to grow by 15% in 2022, supported by improving economic activity. Off-balance-sheet transactions are set to increase strongly in 2022 as high oil prices support trade finance activity. RTB's management has adequate experience and knowledge to implement its strategy, but the execution will remain highly constrained by the domestic operating environment.

Balance Sheet
(End-Dec 21)



Source: Fitch Ratings, RTB

Performance Through the Cycle



Source: Fitch Ratings, RTB

Risk Profile

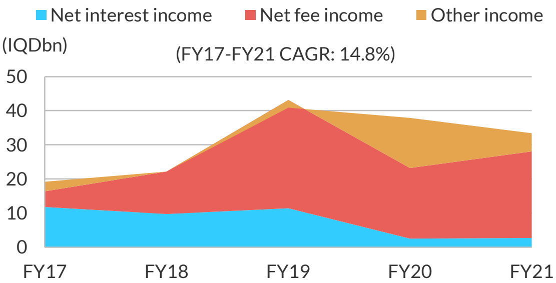
Conservative Risk Appetite

RTB's loan book is minimal and loan growth is weak and unstable, given the limited lending opportunities and tightened underwriting standards. The bank has an increasing appetite for lending given higher oil prices; it targets 15% loan growth in 2022, while focusing on the best-credit-quality corporates. Trade finance transactions are also short-term; they are backed by cash margins (30%) and are predominantly related to government projects. Short-term interbank placements were 15% of total assets at end-2021 and were mainly with non-investment-grade banks in the United Arab Emirates and Jordan.

Structural interest-rate risk is small because the majority of RTB's assets and liabilities are non-interest-bearing. Foreign-currency (FC) risk is limited with small FC positions, mainly in US dollars, for very short periods. The bank had a long FC position representing 3% of equity at end-2021. The Iraqi dinar devaluation in December 2020 had a small impact on the bank. FC transactions are mainly to meet customers' and the government's needs. The CBI controls FC supply in Iraq through auctions, which results in some fluctuations in the exchange rate. The bank generated IQD6.5 billion and IQD4.3 billion through FC auctions in 2020 and 2021, respectively, which were 13% and 17% of total operating income.

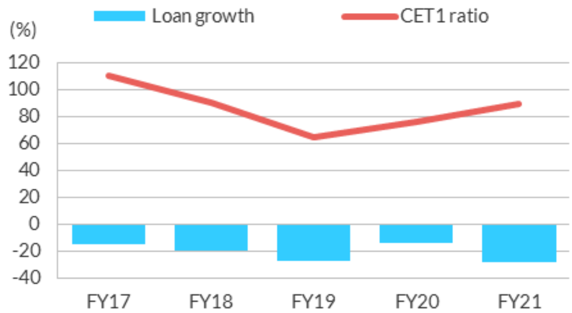
The bank's high fixed assets (27% of total assets at end-2021, mainly land and building for its future headquarters) could expose the bank to market risk in the event of a negative revaluation.

Revenue Breakdown



CAGR: compound annual growth rate
Source: Fitch Ratings, RTB

Loan Growth



Source: Fitch Ratings, RTB

Financial Profile

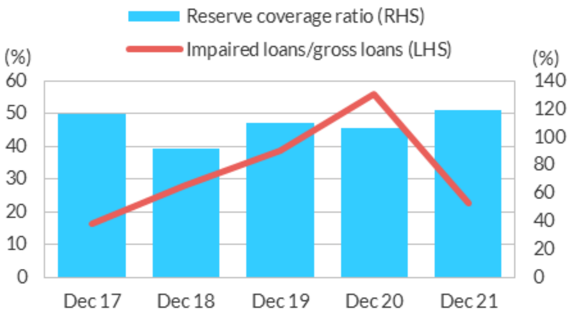
Asset Quality

Sensitive to the Sovereign and Operating Environment

Cash (38% of total assets at end-2021), fixed assets (28%), interbank placements with foreign banks (15%) and balances with the CBI (11% including mandatory reserves) drive the assessment of RTB's asset quality. These assets are highly volatile, sensitive to and driven by sovereign deposits and local business opportunities. Loans (7%) are low and have a small impact on the assessment of asset quality. Off-balance-sheet transactions (5% of total assets at end-2021; no impairments) are highly volatile depending on business opportunities and made up, on average, 14% of total assets over the past five years.

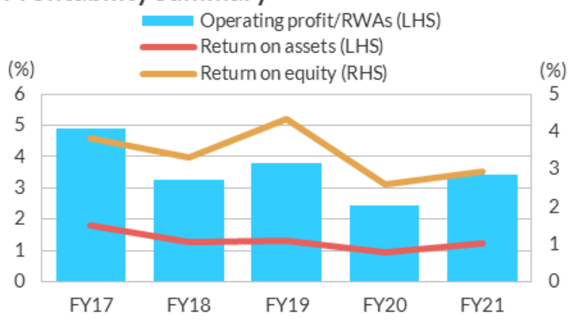
The bank's impaired loans ratio declined to 22.8% at end-2021 from 55.9% at end-2020, supported by large write-offs (IQD40.8 billion; 45% of average gross loans in 2021). RTB wrote off legacy impaired loans that became impaired in 2007. The bank expects the impaired loans ratio to fall to 6% by end-2023, supported by recoveries and write-offs. RTB has a high reserve coverage of impaired loans (120% at end-2021). Collateralisation (mainly cash margin and real estate) is also high.

Asset Quality Summary



Source: Fitch Ratings, RTB

Profitability Summary



Source: Fitch Ratings, RTB

Earnings and Profitability

Weak Profitability

RTB's profitability is weak due to large non-to-low-interest earning liquid assets, large non-earning fixed assets, a low-yielding loan portfolio (despite negligible funding costs) and high impairment charges. Non-interest income is the main contributor to operating income, comprising mainly fees and commissions on international transfers, the discounting of bills of exchange and trade finance transactions, as well as fees on credit cards. For 2022, we believe higher oil prices should support business volumes and profitability.

Our core profitability metric, operating profit/risk-weighted assets (RWAs), is low despite the low RWA density (typically below 50%). It improved to 3.4% in 2021 from 2.5% in 2020 mainly owing to loan write-offs, which led to a 13% reduction in RWAs. Operating profit/average total assets of less than 2% over the past five years is low in an emerging market context. Fines from the CBI are another constrain on RTB's cost-to-income ratio (71% in 2021) as they were 45% of operating expenses in 2021 (36% in 2020). Without the fines, the bank's cost-to-income ratio would have been 39% in 2021. The bank expects a strong recovery in profitability in 2022 as higher oil prices underpin higher business volumes, which should support non-interest revenue.

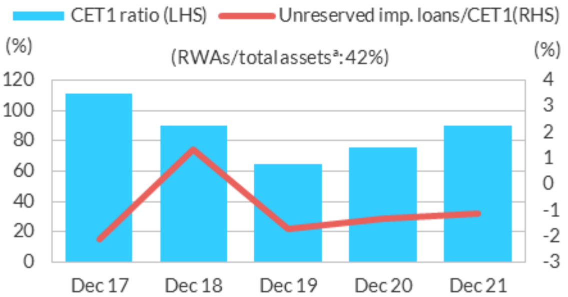
Capital and Leverage

High Capital Ratios

RTB's regulatory capital ratios are high. Its CAR of 92.2% at end-2021 displayed a large excess buffer over the regulatory minimum. The bank is required by the CBI to maintain a minimum CAR of 28% instead of the usual 12% applied in Iraq, given high concentrations in deposits and loans. The CAR benefits from a low RWA density owing to a 0% risk-weight on cash in dinars (dollars: 10%), CBI placements and sovereign off-balance-sheet exposures, as well as low risk weights on cash-covered off-balance-sheet transactions. The tangible leverage ratio was high at 38% at end-2021, but decreased from 46.2% at end-2020 on the back of strong deposits growth (+55%).

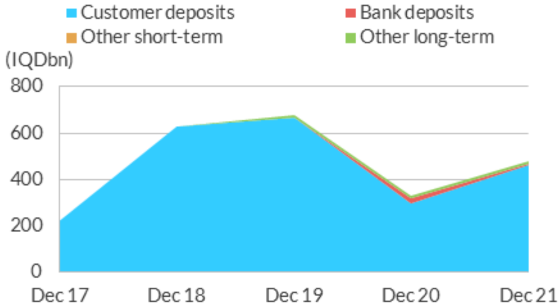
Capital ratios are likely to remain high given RTB's cash-oriented business model, with limited lending and highly cash-covered off-balance-sheet transactions. Fast balance-sheet growth as a result of strong deposit growth could lead to a quick erosion in the tangible leverage ratio. The bank has not distributed dividends in the past five years and plans to pay out dividends once return on equity exceeds 10% (3% in 2021), which is unlikely in the near term.

Capitalisation & Leverage Summary



[a] Latest
Source: Fitch Ratings, RTB

Funding Breakdown



Source: Fitch Ratings, RTB

Funding and Liquidity

High Liquidity Mitigates Funding Concentration and Volatility

RTB is funded by customer deposits (57% of total assets at end-2021) and equity (38%). The bank's funding is highly sensitive to government deposits, which have proved volatile in the past five years; for example, the contribution of government deposits (mainly from the Kurdistan Regional Government) to the deposit base (excluding cash margins) ranged from 70% at end-2018 to 15% at end-2020. Corporate deposits are also high and volatile, partially linked to FC auctions. Retail deposits are small, reflecting RTB's small branch network and Iraqis' lack of confidence in the banking sector, especially private banks. This results in high deposit concentration (the 20 largest deposits were 50% of total customer deposits at end-2021). Deposits are predominantly current accounts, and are contractually and behaviourally short term.

RTB's high liquidity mitigates risks arising from funding concentration and volatility. The excess liquidity, coming from equity or government-related deposits (as well as some large corporates), is mainly kept as cash in vaults or placed with the CBI. Liquid assets were a high 60% of total assets at end-2021 and covered more than 100% of customer deposits. The bank runs positive maturity gaps. The Basel liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) were 251% and 177% at end-2021, respectively, reflecting large cash holdings (LCR) and a high equity-to-assets ratio (NSFR).

Financials

Financial Statements

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(IQDm)	(IQDm)	(IQDm)	(IQDm)
	Unaudited	Unaudited	Unaudited	Audited – unqualified	Audited – qualified
Summary income statement					
Net interest and dividend income	2	2,759.9	2,547.6	11,402.8	9,714.6
Net fees and commissions	18	25,298.2	20,680.7	31,753.3	12,471.2
Other operating income	4	5,307.8	14,704.1	-2,239.0	20.9
Total operating income	23	33,365.9	37,932.4	40,917.1	22,206.7
Operating costs	16	23,682.8	18,531.9	13,743.9	8,930.3
Pre-impairment operating profit	7	9,683.1	19,400.5	27,173.2	13,276.4
Loan and other impairment charges	-1	-2,046.5	9,765.7	10,235.2	3,210.8
Operating profit	8	11,729.6	9,634.8	16,938.0	10,065.6
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	2	2,821.9	2,000.0	4,591.3	1,017.5
Net income	6	8,907.7	7,634.8	12,346.7	9,048.1
Other comprehensive income	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch comprehensive income	6	8,907.7	7,634.8	12,346.7	9,048.1
Summary balance sheet					
Assets					
Gross loans	52	75,067.8	105,078.4	122,790.1	170,260.0
- Of which impaired	12	17,120.9	58,682.7	47,414.2	47,631.2
Loan loss allowances	14	20,479.0	62,672.9	52,353.6	43,890.8
Net loans	38	54,588.8	42,405.5	70,436.5	126,369.2
Interbank	82	117,730.7	77,711.8	100,781.4	282,314.2
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	1	799.5	4,292.7	2,963.3	799.2
Total earning assets	120	173,119.0	124,410.0	174,181.2	409,482.6
Cash and due from banks	272	392,718.4	275,272.4	526,305.5	430,253.6
Other assets	167	241,201.4	244,836.2	276,526.5	73,881.4
Total assets	559	807,038.8	644,518.6	977,013.2	913,617.6
Liabilities					
Customer deposits	320	462,041.7	298,019.0	665,022.6	625,638.1
Interbank and other short-term funding	3	4,574.6	19,250.3	2,369.6	135.8
Other long-term funding	10	13,728.7	13,784.5	8,635.0	3,254.0
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding and derivatives	333	480,345.0	331,053.8	676,027.2	629,027.9
Other liabilities	13	19,364.3	15,043.0	10,199.1	6,641.8
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	213	307,329.5	298,421.8	290,786.9	277,947.9
Total liabilities and equity	559	807,038.8	644,518.6	977,013.2	913,617.6
Exchange rate		USD1 = IQD1443.12	USD1 = IQD1451.01	USD1 = IQD1182	USD1 = IQD1194

Source: Fitch Ratings, Fitch Solution, RTB

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.4	2.5	3.8	3.3
Net interest income/average earning assets	1.9	1.7	3.9	2.6
Non-interest expense/gross revenue	71.0	48.9	33.6	40.2
Net income/average equity	2.9	2.6	4.3	3.3
Asset quality				
Impaired loans ratio	22.8	55.9	38.6	28.0
Growth in gross loans	-28.6	-14.4	-27.9	-20.1
Loan loss allowances/impaired loans	119.6	106.8	110.4	92.2
Loan impairment charges/average gross loans	-2.3	8.2	6.6	0.5
Capitalisation				
Common equity Tier 1 ratio	89.7	75.8	64.7	90.2
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	89.7	75.8	64.7	90.0
Tangible common equity/tangible assets	38.0	46.2	29.7	30.3
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	-1.1	-1.3	-1.7	1.4
Net impaired loans/Fitch Core Capital	-1.1	-1.3	-1.7	1.4
Funding and liquidity				
Gross loans/customer deposits	16.3	35.3	18.5	27.2
Liquidity coverage ratio	251.1	222.2	233.6	200.0
Customer deposits/total non-equity funding	96.2	90.0	98.4	99.5
Net stable funding ratio	176.8	129.7	160.8	232.6

Source: Fitch Ratings, Fitch Solutions, RTB

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	B-
Actual jurisdiction D-SIB GSR	ccc+
Government Support Rating	**ns**
Government ability to support D-SIBs	
Sovereign Rating	B-/ Stable
Size of banking system	Neutral
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

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

Higher influence Moderate influence Lower influence

Sovereign Support Cannot Be Relied On

Iraqi banks' domestic systemically important banks' (D-SIBs) Government Support Rating (GSR) of 'ccc+' reflects uncertainty about the government's propensity to support the banking sector and the lack of a record of support, including for large state-owned banks that may require replenishment of capital. The D-SIBs' GSR also reflects the sovereign's moderate financial flexibility and the concentrated structure of the banking system, with the three largest public sector banks accounting for more than 80% of sector assets, which constrains the sovereign's ability to support the banking system, if needed.

Fitch believes that the Iraqi authorities would have a low propensity to support RTB, if needed, mainly due to the bank's limited systemic importance. Therefore, RTB's GSR is at 'No Support'.

Environmental, Social and Governance Considerations

FitchRatings **Region Trade Bank for Investment and Finance Private Shareholding**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Region Trade Bank for Investment and Finance Private Shareholding has 5 ESG potential rating drivers

- Region Trade Bank for Investment and Finance Private Shareholding 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
not a rating driver	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

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

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

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

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

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

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

CREDIT-RELEVANT ESG SCALE

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

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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