FitchRatings

Banks
Islamic Banks
United Arab Emirates

Sharjah Islamic Bank PJSC

Key Rating Drivers

State Support Drives Ratings: Sharjah Islamic Bank PJSC's (SIB) Issuer Default Ratings (IDRs) reflect a high probability of support from the UAE authorities, if needed. This takes into consideration the UAE's strong ability and long history of supporting the banking system, but also SIB's moderate systemic importance based on its 1.7% share of banking system assets.

SIB's Viability Rating (VR) reflects a modest franchise, satisfactory asset-quality metrics, only adequate capital ratios given high financing concentration, and moderate profitability. It also reflects an acceptable strategy, a fairly conservative risk appetite, and sound funding and liquidity.

Modest Franchise: The VR remains constrained by the bank's modest franchise, although SIB benefits from its close ties to the Sharjah government given its 37.6% ownership. SIB's small market share limits pricing power and competitive advantage.

Satisfactory Asset Quality: SIB's Stage 3 financing declined to 4.9% of gross financing at end-2020 from 5.1% at end-2019 as strong financing growth (16.4%) outpaced the increase in Stage 3 financing (10.6%). SIB's Stage 3 financing ratio remains well below domestic peers, supported by conservative financing practices and low-risk exposures to the government of Sharjah and its related entities (36% of gross financings at end-1Q21).

The Stage 2 financing ratio (7.3% at end-1Q21) has been rising since 2019 given economic-environment pressures but still compares well with domestic peers. Moderate growth prospects and the gradual withdrawal of support measures will put pressure on the bank's Stage 3 financing ratio in 2021-2022.

Resilient Profitability: SIB's operating profit/risk-weighted assets (RWAs) ratio declined to 1.1% in 2020 (2019: 1.7%) but remained better than at most peers. This was supported by strong growth in government and government-related entity (GRE) financing and lower costs, which mitigated higher financing impairment charges (FICs). We expect the ratio to improve slightly in 2021-2022 on recovering business activity, lower expenses and contained FICs.

Only Adequate Core Capitalisation: SIB's common equity Tier (CET) 1 ratio declined to 14.7% at end-1Q21 (end-2019: 16%) as strong financing growth exceeded internal capital generation. The bank's comfortable capital buffers and sound reserve coverage (85.6% at end-1Q21) underpin a healthy loss-absorption capacity but we view the bank's core capital ratios as only adequate in light of high concentration risks.

Sound Funding; Stable Liquidity: SIB is largely deposit-funded (73.5% of total non-equity funding at end-1Q21). Deposits are concentrated but historically stable with 37% coming from the sovereign and GREs. The bank complements its funding with sukuk issuance, demonstrating sound access to capital markets. SIB maintains a reasonable cushion of net liquid assets that covered 15% of customer deposits at end-2020.

Rating Sensitivities

IDRs: SIB's IDRs are sensitive to a change in Fitch Ratings' view of the creditworthiness of the UAE authorities and on their propensity to support the banking system or the bank.

VR: A sustained increase in the Stage 3 financing ratio above 7% leading to a decline in the bank's CET1 ratio below 13% could lead to a downgrade of the VR. An upgrade of the VR could result from a significant expansion in the domestic franchise but this is unlikely in the short term.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F2
Viability Rating	bb+
Support Rating	2
Support Rating Floor	BBB+
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AA+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (February 2020)

Sukuk Rating Criteria (February 2021)

Related Research

Fitch Affirms Sharjah Islamic Bank at 'BBB+'; Outlook Stable (May 2021)

United Arab Emirates' Banks - Peer Review (February 2021)

GCC Banks' Asset-Quality Risk Is Masked by Prolonged Borrower Support (February 2021)

Fitch Ratings 2021 Outlook: Middle East Banks (December 2020)

GCC Banks' Additional Tier 1 Investors Face Contrasting Prospects (November 2020)

United Arab Emirates (November 2020)

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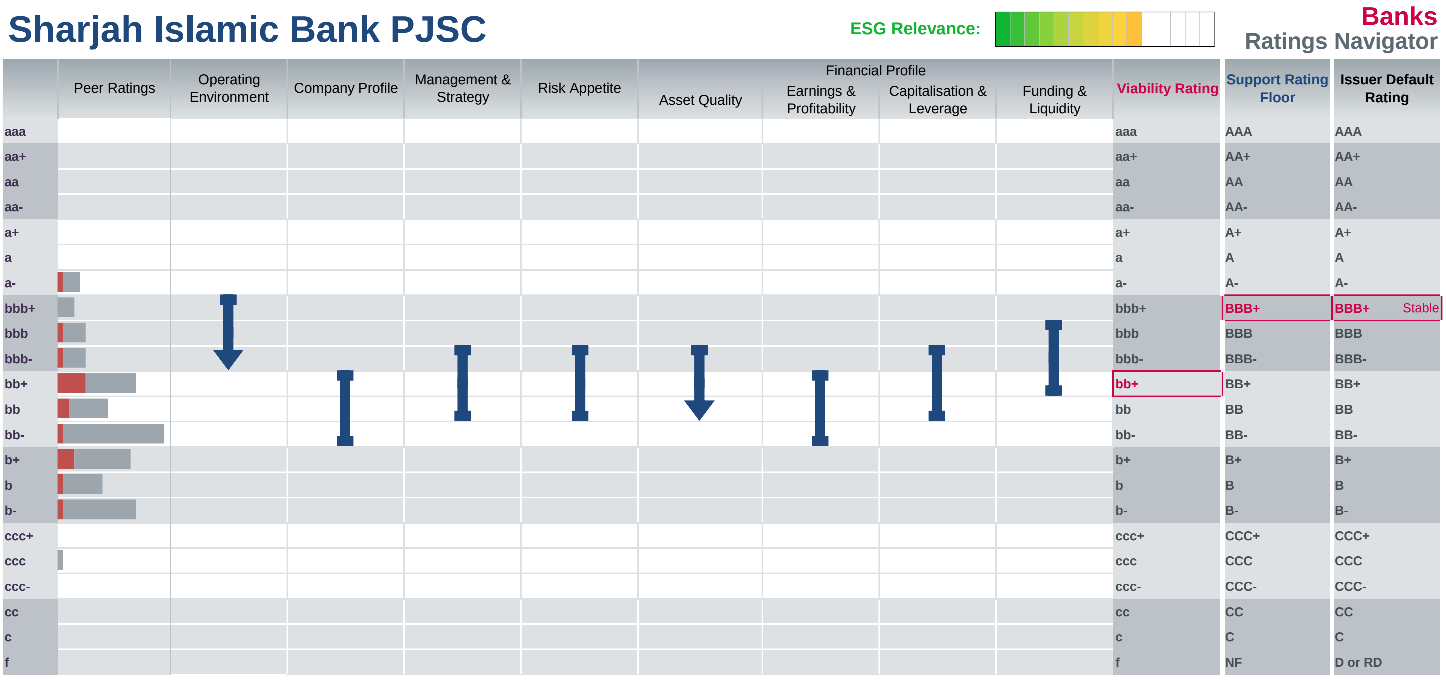
Ratings Navigator



Sovereign Support Assessment

Strong Ability and Propensity to Provide Support

SIB's Support Rating of '2' and Support Rating Floor (SRF) of 'BBB+' reflect a high probability of support available to the bank from the UAE authorities (AA-/Stable).

Fitch's view of support factors in the sovereign's strong capacity to support the banking system, sustained by sovereign wealth funds and recurring revenue, mostly from hydrocarbon production, despite lower oil prices. We also believe there is a high willingness from the UAE authorities to support the banking sector. This has been demonstrated by their long record of supporting domestic banks and is underlined by the state's close ties with and partial ownership of some banks.

SIB's SRF is two notches below the UAE domestic systemically important banks' (D-SIB) SRF of 'A' due to Fitch's view that SIB is of moderate systemic importance based on its 1.7% market share of total assets in the UAE banking sector at end-2020.

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

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

Significant Changes – Sector Wide

Downside Risks to UAE Banks' Credit Profiles

UAE banks' credit profiles face deterioration given the more challenging operating environment, on which Fitch has a negative outlook. Banks are highly exposed to the troubled real estate and construction sectors (20.5% of total domestic loans at end-2020) and to sectors vulnerable to the pandemic fallout, such as the services, transport, retail and hospitality sectors. We expect defaults to rise as government support measures wane.

Nevertheless, under our baseline scenario, a recovery in economic activity (especially in non-oil sectors) will support to some extent revenue generation. Fitch expects non-oil real GDP to grow by 4.4% in 2021 after contracting by 6.4% in 2020, when non-oil sectors were severely affected by the economic fallouts of the global pandemic, especially in Dubai.

Fitch forecasts UAE real GDP to grow by 2.8% in 2021 and 4% in 2022 after shrinking by about 7.5% in 2020. A deeper and more extended economic contraction than we expect would be negative for the operating environment score and for the banks' VRs.

Government Support Measures to Unwind in 2021

The Central Bank of the UAE's (CBUAE) AED100 billion (USD27 billion) Targeted Economic Support Scheme (TESS), introduced in 1Q20, has reduced liquidity and capital costs for banks. The TESS is a two-fold package, which includes access to a zero-cost collateralised facility, allowing banks to provide debt service holidays to both principal and interest to customers until end-2021 (previously end-June 2021). It also includes capital buffer relief through lower minimum regulatory capital requirements that increase banks' ability to lend. The CBUAE has eased prudential liquidity ratios, including a 30% reduction in the minimum liquidity coverage ratio and a 50% reduction in the cash reserve requirement.

Asset Quality to Weaken

The consequences of the pandemic and lower oil prices will continue to weigh on banks' asset quality due to deteriorating business conditions in retail and wholesale trade, and in the real estate and construction sectors. Overall, medium-term prospects for non-oil real GDP growth will be constrained by public spending rationalisation and real-estate oversupply.

Deferred exposures and other related balances made up on average more than 15% of gross loans at end-2020, which could lead to higher problem loans once support measures are withdrawn. Group 2 loans as per CBUAE guidelines (exposures that are expected to be significantly affected by Covid-19 in the long term) represented on average about 3% of gross loans, posing further downside risks to asset-quality metrics in 2021-2022. We expect the weighted average Stage 3 loans ratio to reach about 6.5% by end-2021, up from about 5% at end-2019 and well above levels reached in the last oil price shock in 2014-2016. In addition, increasing levels of restructuring and the extension of support measures (including loan deferrals under the TESS) until end-2021 will mask the true increase in problem loans.

Still Reasonable Financial Metrics

Profitability across banks has come under pressure from low rates, subdued business volumes, and higher loan impairment charges. We expect the sector-average CET1 ratio of 14.9% at end-2020 (end-2019: 14.7%), as disclosed by the CBUAE, to be stable and provide adequate loss absorption buffers against a moderate weakening in asset quality and profitability. Subdued domestic loan growth in 2021-2022 will weigh on revenue generation but will provide some support to banks' core capitalisation. We expect funding and liquidity profiles to remain generally sound across UAE banks.

Banks with stronger franchises benefit from a higher proportion of low-cost deposits. Deposits have been stable despite being contractually short-term. Government and GRE deposits accounted for 30% of sector deposits at end-2020 (end-2019: 29%) and underpin many banks' funding profiles. Unlike in 2014-2015, we expect these deposits to be broadly stable, supported by higher oil prices and sovereign's funding strategies prioritising debt issuance over asset drawdowns.

Company Summary and Key Qualitative Assessment Factors

Limited Franchise; Close Ties with the Sharjah Government

The Sharjah government's 37.6% ownership of SIB through Sharjah Asset Management, the investment arm of the government of Sharjah (28.5%) and Sharjah Social Security Fund (9.1%), underpins strong ties with the Sharjah government. Kuwait Finance House (K.S.C.P.) (KFH; A+/Negative; VR: 'bb+') joined as an important investor (18.2% stake) upon the bank's conversion to Islamic status in 2002. The remaining (44.2%) is a free float.

SIB has a small but growing network of 34 branches in the UAE, the eighth-largest network in the country. SIB became the fourth-largest Islamic bank in the UAE when Noor Bank was taken over by Dubai Islamic Bank in 1Q20. The bank has been gaining market shares since 2017 in Sharjah and across the UAE – albeit from a low base – given strong balance-sheet growth supported by healthy core capital buffers and good asset-quality fundamentals.

Corporate- and Government-Focused Business Model

SIB's business model has been stable through the various economic cycles. Its focus on corporate and government financing underpins the bank's lower-risk business model. These segments (including high-net-worth individuals) accounted for 43% and 53%, respectively, of total assets and total operating income at end-2020. Retail made up 9% of total assets, with retail financings composed mainly of personal financings (60%) and mortgages (35%). Fitch does not expect any significant changes to SIB's franchise, market shares or business model through organic growth.

The strong financing growth of 16.4% in 2020 was driven by government and GRE financings, primarily in Sharjah and, to a lesser extent, in Dubai. We expect growth to slow in 2021 as a result of weak credit demand from the private sector and lower sovereign financing needs given higher oil prices.

High Related-Party Financing

Related-party financing activities are significant, at 117% and 17% of total equity and total assets at end-2020, respectively. This is consistent with SIB's state-ownership structure and focus on government financing. Fitch understands that all of SIB's related-party transactions are structured on commercial terms and most are with the government of Sharjah and related entities. In our view, this does not present significant risks for creditors given the credit-quality of these exposures, the bank's record and conservative lending practices.

Consistent Execution Through the Cycle

SIB maintained consistent execution through the cycle, especially in maintaining healthy asset-quality metrics and strengthening reserve coverage. Asset-quality metrics have been notably more resilient than at domestic peers in the face of the 2015-2016 and current cyclical downturns owing to its more conservative risk appetite. The bank's very low exposure to NMC Healthcare and related entities (0.1% of gross financings at end-2020) limited the increase in Stage 3 financing and kept FICs under control in 2020, unlike most domestic peers. The bank's capital ratios remain healthy despite rapid erosion over the past few years as a result of high financing growth.

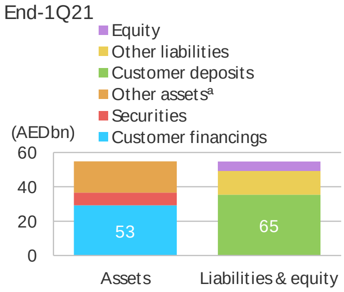
Conservative Risk Appetite; High Concentration

Government and GREs represent a significant proportion of SIB's financing activities (36% at end-2019), which supports asset-quality metrics as none of these exposures has become impaired. The real estate and construction sector represents 25% of gross financing; this has been rising since 2016. However, the bank has experienced low levels of impairment in real estate, unlike many small and medium-sized UAE peers. The real estate and construction sector represented, nonetheless, 38% of deferred exposures and other related balances at end-2020 and a significant proportion of Group 2 deferred exposures.

Financing concentrations are a common feature of UAE banks and are hardly avoidable given the narrow nature of the domestic economy. The top 20 exposures (funded and unfunded) represented a high 2.9x CET1 at end-2020, which exposes the bank to event risk. The exposure to the emirate of Sharjah was 1.5x CET1, which is high but acceptable.

Balance Sheet Composition

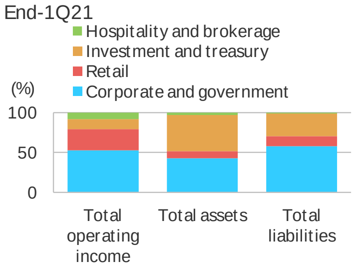
End-1Q21



[a] Mainly interbank placements and cash with the Central Bank of the UAE (CBUAE)
Source: Fitch Ratings

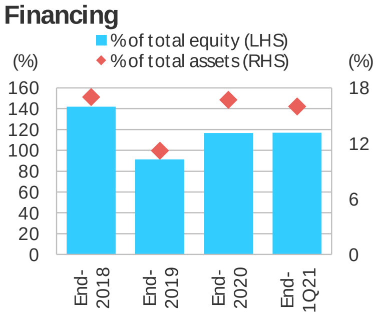
Breakdown By Reporting Segment

End-1Q21



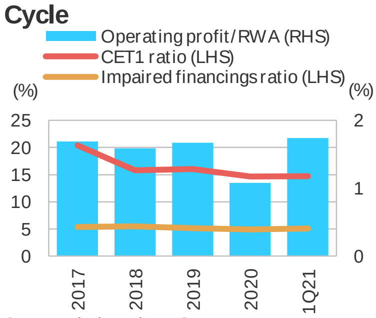
Source: Fitch Ratings, SIB

Elevated Level of Related-Party Financing



Source: Fitch Ratings, SIB

Performance Through-The-Cycle



Source: Fitch Ratings, SIB

Summary Financials and Key Ratios

	31 Mar 21		31 Dec 20	31 Dec 19	31 Dec 18
	3 months - 1st quarter	3 months - 1st quarter	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 & dividend income	72	263.2	973.9	897.6	865.5
Net fees and commissions	n.a.	n.a.	185.5	217.8	198.5
Other operating income	22	80.4	63.6	112.3	109.3
Total operating income	94	343.6	1,223.0	1,227.7	1,173.3
Operating costs	36	131.4	561.4	585.4	626.1
Pre-impairment operating profit	58	212.2	661.6	642.3	547.2
Financing & other impairment charges	13	48.0	255.5	96.8	36.8
Operating profit	45	164.2	406.1	545.5	510.4
Other non-operating items (net)	n.a.	n.a.	-0.3	0.0	0.0
Tax	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	45	164.2	405.8	545.5	510.4
Other comprehensive income	-5	-19.9	20.6	72.4	-48.3
Fitch comprehensive income	39	144.3	426.4	617.9	462.1
Summary balance sheet					
Assets					
Gross financing	8,349	30,660.1	30,556.4	26,261.3	25,580.6
- Of which impaired	424	1,556.9	1,493.8	1,350.5	1,400.9
Financing loss allowances	363	1,333.4	1,287.8	1,118.4	1,456.8
Net financing	7,985	29,326.7	29,268.6	25,142.9	24,123.8
Interbank	2,589	9,509.1	7,831.8	7,948.1	7,217.2
Islamic derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	2,791	10,250.0	10,633.4	8,527.3	9,335.7
Total earning assets	13,366	49,085.8	47,733.8	41,618.3	40,676.7
Cash and due from banks	899	3,302.7	3,391.5	2,450.8	2,440.9
Other assets	689	2,530.5	2,475.5	2,321.4	1,627.9
Total assets	14,954	54,919.0	53,600.8	46,390.5	44,745.5
Liabilities					
Customer deposits	9,660	35,475.6	33,608.3	27,313.1	26,438.3
Interbank and other short-term funding	1,491	5,474.5	5,973.1	5,128.0	6,548.8
Other long-term funding	1,498	5,501.7	5,500.7	5,503.1	5,499.6
Trading liabilities and Islamic derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding	12,649	46,451.8	45,082.1	37,944.2	38,486.7
Other liabilities	265	975.0	873.3	917.1	871.2
Preference shares and hybrid capital	500	1,836.5	1,836.5	1,836.5	n.a.
Total equity	1,540	5,655.7	5,808.9	5,692.7	5,387.6
Total liabilities and equity	14,954	54,919.0	53,600.8	46,390.5	44,745.5
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions, Sharjah Islamic Bank PJSC

Summary Financials and Key Ratios

	31 Mar 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.7	1.1	1.7	1.6
Net financing income/average earning assets	2.2	2.1	2.2	2.3
Non-financing expense/gross revenue	38.2	46.6	48.3	54.7
Net income/average equity	11.6	7.1	9.9	9.6
Asset quality				
Impaired financing ratio	5.1	4.9	5.1	5.5
Growth in gross financing	0.3	16.4	2.7	11.8
Financing loss allowances/impaired financing	85.6	86.2	82.8	104.0
Financing impairment charges/average gross financing	0.6	0.8	0.3	0.2
Capitalisation				
Common equity Tier 1 ratio	14.7	14.7	16.0	15.8
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	14.8	15.4	17.4	16.8
Tangible common equity/tangible assets	10.3	10.8	12.3	12.0
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired financing/common equity Tier 1	4.0	3.7	4.4	-1.1
Net impaired financing/Fitch Core Capital	4.0	3.6	4.1	-1.0
Funding & liquidity				
Financing/customer deposits	86.4	90.9	96.2	96.8
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	73.5	71.6	68.7	68.7
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Sharjah Islamic Bank PJSC

Key Financial Metrics – Latest Developments

Satisfactory Asset Quality

SIB's Stage 3 financing ratio of 4.9% at end-2020 was one of the lowest among domestic banks, supported by the bank's conservative risk appetite and high exposure to the government of Sharjah and its related entities. The rise in the Stage 2 financing ratio to 7.3% at end-1Q21 from 5.1% at end-2019 was driven by exposures to the real estate and construction, trade and services sectors given cash-flow pressures caused by the global pandemic.

Payments deferred until end-2021 and related balances that are classified as Group 2 (exposures expected to be significantly affected by the global pandemic in the long term) under CBUAE guidelines accounted for 3.9% of gross financing at end-1Q21. These could lead to additional Stage 3 inflows in 2021-2022 given moderate growth prospects. We expect the bank's total reserve coverage of Stage 3 financings (85.6% at end-1Q21) to continue to increase in 2021-2022 given the bank's plans to build up provisioning buffers.

Resilient Profitability

SIB's operating profit/risk-weighted assets ratio was more resilient than most domestic peers in 2020 by falling by only 60bp. The bank's very low exposure to NMC Health and related entities and risk profile skewed toward government financing helped contain FICs. The net financing margin was broadly stable at 2.2% in 2020, supported by strong financing growth and downward repricing of customer deposits. The net financing margin remains below the sector average of 2.8% given the bank's focus on lower-yielding government financing and high reliance on time deposits (62% of total customer deposits at end-1Q21), which translates into a relatively high cost of funding.

The bank's cost/income ratio continued its downward trend to 38.2% in 1Q21 from 54.7% in 2018 owing to lower operating expenses and good revenue generation. Recovering business conditions, high financing growth and contained FICs should support a recovery of core profitability metrics in 2021-2022.

Only Adequate Core Capitalisation

The bank's CET1 ratio of 14.7% at end-2020 was in line with the sector average. We expect the ratio to improve slightly in 2021 on the back of lower financing growth and higher earnings retention. SIB's total capital adequacy and Tier 1 capital ratios were 20.7% and 19.5%, respectively, at end-1Q21, against minimum regulatory requirements (including forbearance) of 11.5% and 9%. Both ratios were boosted in 2019 by the issuance of a USD500 million additional Tier 1 sukuk.

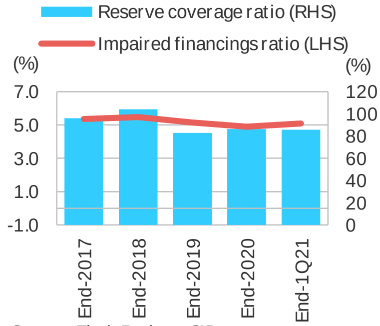
Sound Funding; Stable Liquidity

SIB benefits from a loyal customer deposit base from sovereign and public-sector entities, mainly from Sharjah and to lower extent Abu Dhabi and Dubai. This supports the bank's record in ensuring healthy liquidity even in times of system-wide funding stress, as was observed in 2014-2016. However, this results in high deposit concentration with the top 20 deposits accounting for 37% of total customer deposits at end-2020. High deposit concentration also reflects a lower share of retail customer deposits (17% of the total at end-2020), which reflects SIB's small franchise in the UAE.

The bank's gross financing to customer deposits ratio declined to 90.9% at end-2020 from 96.4% at end-2019 on the back of 23% growth in customer deposits from sovereign and GREs as well as corporates. Our assessment of the bank's funding profile takes into consideration the bank's ability to diversify its funding and reduce asset-liability maturity mismatches by potentially tapping the capital markets under the bank's USD3 billion sukuk issuance programme.

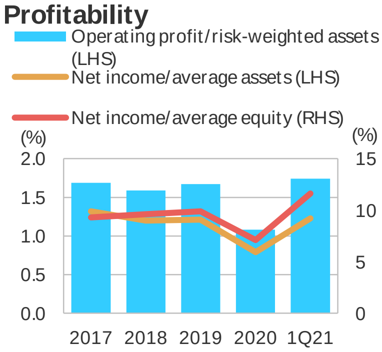
The bank has sound liquidity buffers with a Basel III liquidity coverage ratio standing at a high 246% at end-2020. Despite a low share of retail deposits, the bank's net stable funding ratio was an adequate 106% at end-2020.

Asset Quality



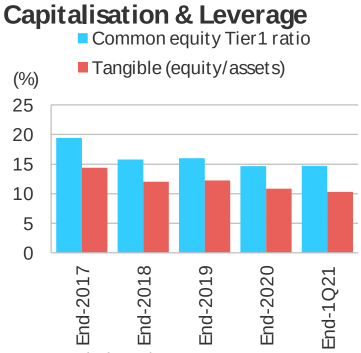
Source: Fitch Ratings, SIB

Profitability



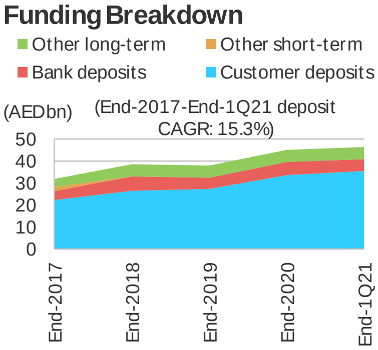
Source: Fitch Ratings, SIB

Capitalisation & Leverage



Source: Fitch Ratings, SIB

Funding Breakdown



Source: Fitch Ratings, SIB

Environmental, Social and Governance Considerations

As an Islamic bank, SIB 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 (ESG.RS) 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.RS 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 SIB, either due to their nature or to the way in which they are being managed by SIB. For more information on our ESG.RS, visit www.fitchratings.com/esg.

FitchRatings **Sharjah Islamic Bank PJSC** Banks Ratings Navigator

Credit-Relevant ESG Derivation

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

- Sharjah 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.
- Sharjah 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.
- Sharjah 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.
- Sharjah Islamic Bank PJSC has exposure to operational implementation of strategy but this has very low impact on the rating.
- Sharjah 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.
- Sharjah 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	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

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

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	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	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

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

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

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

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

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

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

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.