FitchRatings

Banks
Islamic Banks
United Arab Emirates

Sharjah Islamic Bank PJSC

Key Rating Drivers

State Support Drives IDRs: 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 lower systemic importance based on its 1.5% share of banking system assets.

SIB's Viability Rating (VR) reflects a modest franchise, capital ratios which are only adequate given high concentration on both sides of the balance sheet, and profitability below peers'. It also reflects acceptable management and strategy, a fairly conservative risk appetite and satisfactory asset-quality metrics, as well as 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. SIB's small market share limits pricing power and competitive advantage.

High Concentration but Satisfactory Asset Quality: SIB's financing book is characterised by high obligor and sector concentrations, which expose the bank to event risk. Related-party financing is large, albeit predominantly to the Sharjah government.

The stage 3 financing ratio declined to 4.9% at end-1Q20 from 5.5% at end-2018 owing to write-offs and financing growth, and compares favourably with domestic peers'. Stage 2 financing represented a further 6% of gross financing at end-1Q20 and is concentrated in the real-estate and services sectors. Total potential problem financing (which includes stage 2 and stage 3 financing) therefore accounted for 10.9% of gross financing at end-1Q20 and their reserve coverage was satisfactory at 35%.

Profitability Below Peers: SIB's profitability metrics improved in 2019 owing to wider net financing margins (NFMs), increased non-profit revenue and lower operating expenses, and despite rising financing impairment charges (FICs). However, a sharper focus on lower-risk, lower-yielding assets and weaker cost efficiency explains SIB's below sector average overall profitability, which we expect to persist.

Only Adequate Core Capitalisation: The bank's common equity Tier 1 (CET1) ratio fell to 14.9% at end-1Q20 from 20.4% at end-2016 due to regulatory changes (Basel III transition and IFRS 9 implementation) and high financing growth. Fitch Ratings views core capitalisation as only adequate in light of the bank's concentrated balance sheet and modest internal capital generation. The total capital adequacy ratio (CAR) was bolstered in 2019 by a USD500 million additional Tier 1 (AT1) sukuk issuance.

Sound Funding and Stable Liquidity: SIB is funded largely by customer deposits (74% of non-equity funding at end-1Q20). Deposits are concentrated but have historically been stable (37% being from sovereign and government-related entities – GREs). SIB complements its deposit funding with sukuk issuance and has access to capital markets. The bank maintains a reasonable cushion of net liquid assets covering 21% of customer deposits at end-2019.

Rating Sensitivities

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

VR: Deterioration in asset quality affecting profitability and eroding core capital ratios could result in a downgrade. An upgrade of the VR could result from an expansion in the domestic franchise and/or a sustained improvement in asset quality and profitability metrics, 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+
Outlooks	
Long-Term Foreign-Currency IDR	Stable

Financial Data

Sharjah Islamic Bank PJSC

	31 Mar 20	31 Dec 19
Total assets (USDm)	13,411.0	12,631.9
Total assets (AEDm)	49,250.4	46,390.5
Total equity (AEDm)	5,579.7	5,692.7

Source: Fitch Ratings, Fitch Solutions, SIB

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

UAE Islamic Banks Not Isolated from Low Oil Prices, Coronavirus (June 2020)

UAE Banks' Asset Quality under Pressure (June 2020)

GCC Bank Credit Profiles 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: Weaker State Ability to Support GCC Banks (November 2019)

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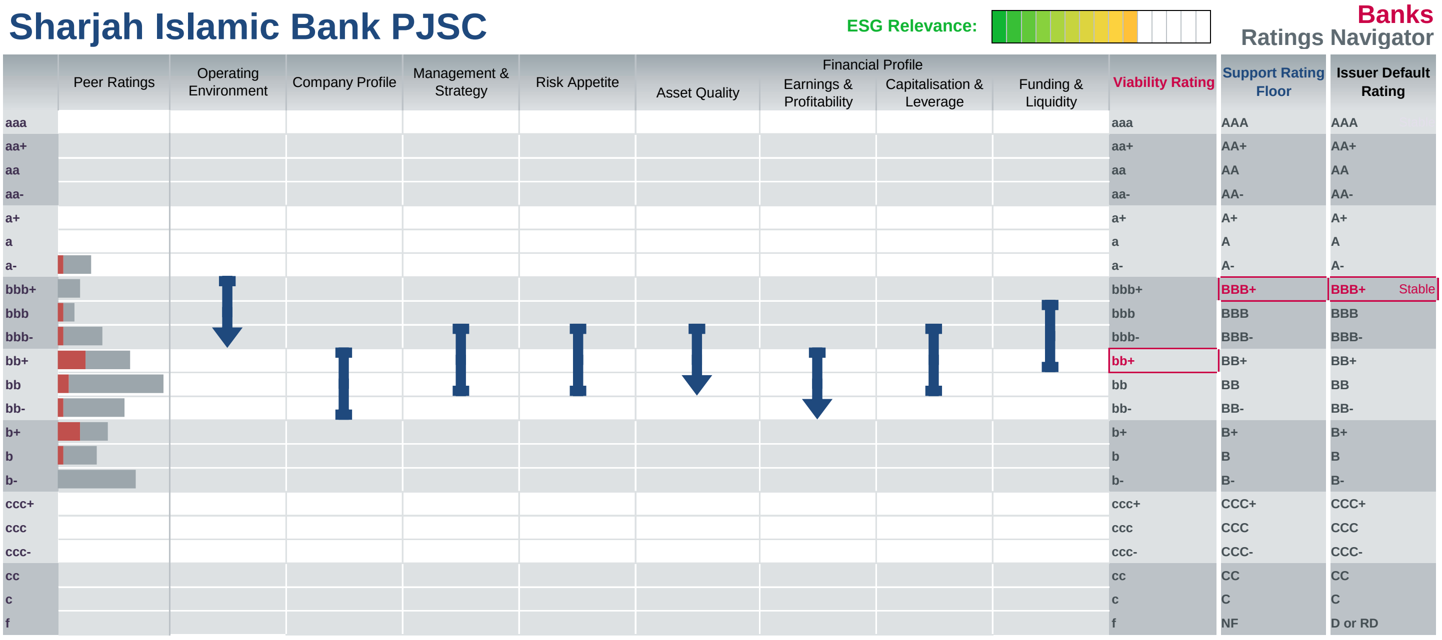


Sovereign Support Assessment

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 from the UAE authorities.

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. Fitch also takes into consideration that the authorities retain a high willingness to support the banking sector.

Fitch assigns SIB a SRF of 'BBB+', two notches below the UAE domestic systemically important bank (D-SIB) SRF of 'A'. This reflects SIB's lower systemic importance based on its 1.5% market share of total assets in the UAE banking system, with operations predominantly in the Emirate of Sharjah.

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)			
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

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

The consequences of the coronavirus and lower oil pices 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 Central Bank of the UAE (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 share 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, lower non-interest income exacerbated by subdued business volumes, and higher loan-impairment charges.

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

The CBUAE's Targeted Economic Support Scheme 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, 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%) and a 50% reduction in the reserve requirements against demand deposits (to 7% from 14%). This 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 a higher-risk appetite through higher concentration and lower collaterallisation, which could ultimately result in weaker asset quality amid more challenging operating conditions.

Company Summary and Key Qualitative Assessment Factors

Limited Franchise; Close Ties with the Sharjah Government

SIB's 37.6%-ownership by the Sharjah government 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+/Stable; 'bb+' VR) joined as a strategic 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 36 branches in the UAE, which represents 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.

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 44% and 55%, respectively, of total assets and total income at end-2019. Retail made up 10% 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 alone.

We expect growth to be driven by capital-efficient government financing in 2020-2021 after strong financing growth in 2017-2018, given the uncertain economic conditions and the bank's strong ties with the Sharjah government.

High Related-Party Financing

Related-party financing activities are significant, at 91% and 11% of total equity and total assets at end-2019, respectively, although this was down from the previous year. This is consistent with SIB's state-ownership structure. Fitch understands that all of SIB's related-party transactions are structured on commercial terms and are mainly with the government of Sharjah and related entities. This does not present, in our view, significant risks for creditors – given the credit-quality of these exposures, the bank's record, and conservative lending practices.

Consistent Execution Through the Cycle

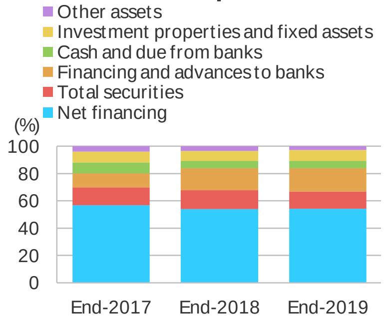
SIB managed to maintain consistent execution through the cycle, especially in maintaining healthy asset-quality metrics and strengthening reserve coverage. Asset-quality metrics have been notably more resilient than at domestic peers in the face of the 2015-2016 cyclical downturn owing to the bank's more conservative risk appetite. The bank's capital ratios remain adequate 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 (27% at end-2019), which supports asset-quality metrics as none of these exposures has become impaired. The real estate and construction sector represented 29% of gross financing; this has been on an upward trend since 2016 and is above the peer average of 20%. However, the bank has experienced low levels of impairment in real estate, unlike many small and mid-sized UAE peers. SIB's underwriting standards benefit from low financing-to-value (FTV) ratios. About 60% of total real-estate exposure had FTV ratios below 70% at end-2019, which highlights the bank's conservative risk appetite.

Concentrations in SIB's financing book are above global industry averages; they reflect the bank's close ties with the Sharjah government and small size and limited franchise in the UAE. 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 2.5x the bank's CET1 at end-2019, which exposes SIB to event risk. The exposure to the emirate of Sharjah was 1.2x the bank's CET1.

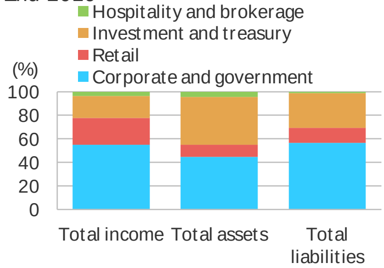
Total Assets Composition



Source: Fitch Ratings, Sharjah Islamic Bank

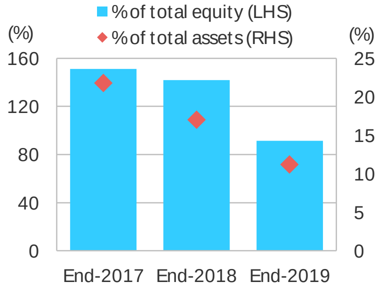
Breakdown By Reporting Segment

End-2019



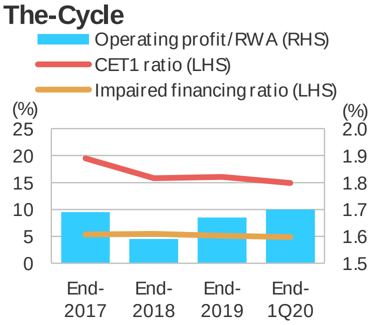
Source: Fitch Ratings, Sharjah Islamic Bank

Declining but Still Elevated Related-Party Financing



Source: Fitch Ratings, Sharjah Islamic Bank

Performance Through-The-Cycle



Source: Fitch Ratings, Sharjah Islamic Bank

Summary Financials and Key Ratios

	31 Mar 20		31 Dec 19	31 Dec 18	31 Dec 17
	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 and dividend income	61	223.8	897.6	865.5	848.2
Net fees and commissions	n.a.	n.a.	186.9	198.5	206.5
Other operating income	21	78.4	143.2	109.3	130.2
Total operating income	82	302.2	1,227.7	1,173.3	1,184.9
Operating costs	37	135.0	585.4	626.1	558.4
Pre-impairment operating profit	46	167.2	642.3	547.2	626.5
Financings and other impairment charges	4	13.5	96.8	36.8	148.8
Operating profit	42	153.7	545.5	510.4	477.7
Other non-operating items (net)	n.a.	n.a.	0.0	0.0	0.0
Tax	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	42	153.7	545.5	510.4	477.7
Other comprehensive income	-19	-68.6	72.4	-48.3	-12.3
Fitch comprehensive income	23	85.1	617.9	462.1	465.4
Summary balance sheet					
Assets					
Gross financings	7,989	29,340.4	26,261.3	25,580.6	22,883.3
- Of which impaired	391	1,437.6	1,350.5	1,400.9	1,223.5
Financings loss allowances	306	1,124.5	1,118.4	1,456.8	1,175.9
Net financings	7,683	28,215.9	25,142.9	24,123.8	21,707.4
Interbank	1,999	7,342.6	7,948.1	7,217.2	4,851.3
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	2,465	9,051.5	8,527.3	9,335.7	7,942.8
Total earning assets	12,147	44,610.0	41,618.3	40,676.7	34,501.5
Cash and due from banks	653	2,397.1	2,450.8	2,440.9	2,177.3
Other assets	611	2,243.3	2,321.4	1,627.9	1,609.7
Total assets	13,411	49,250.4	46,390.5	44,745.5	38,288.5
Liabilities					
Customer deposits	8,575	31,492.0	27,313.1	26,438.3	22,318.5
Interbank and other short-term funding	1,580	5,802.2	5,128.0	6,548.8	5,912.2
Other long-term funding	999	3,667.5	5,503.1	5,499.6	3,665.7
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding	11,154	40,961.7	37,944.2	38,486.7	31,896.4
Other liabilities	238	872.5	917.1	871.2	872.8
Preference shares and hybrid capital	500	1,836.5	1,836.5	n.a.	n.a.
Total equity	1,519	5,579.7	5,692.7	5,387.6	5,519.3
Total liabilities and equity	13,411	49,250.4	46,390.5	44,745.5	38,288.5
Exchange rate		USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725	USD1 = AED3.6725

Source: Fitch Ratings, Fitch Solutions, SIB

Summary Financials and Key Ratios

	31 Mar 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.7	1.7	1.6	1.7
Net financing income/average earning assets	2.1	2.2	2.3	2.6
Non-financing expense/gross revenue	48.0	50.6	54.7	48.4
Net income/average equity	11.0	9.9	9.6	9.3
Asset quality				
Impaired financings ratio	4.9	5.1	5.5	5.4
Growth in gross financings	11.7	2.7	11.8	25.8
Financings loss allowances/impaired financings	78.2	82.8	104.0	96.1
Financing impairment charges/average gross financings	0.2	0.3	0.2	0.8
Capitalisation				
Common equity Tier 1 ratio	14.9	16.0	15.8	19.5
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	15.3	17.4	16.8	19.5
Tangible common equity/tangible assets	11.3	12.3	12.0	14.4
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired financings/common equity Tier 1	5.8	4.4	-1.1	0.9
Net impaired financings/Fitch Core Capital	5.6	4.1	-1.0	0.9
Funding and liquidity				
Financings/customer deposits	93.2	96.2	96.8	102.5
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	73.6	68.7	68.7	70.0
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, SIB

Key Financial Metrics – Latest Developments

Satisfactory Asset Quality

SIB's stage 3 financing ratio has benefited from its double-digit annual financing growth on average since 2017. The ratio declined to 4.9% at end-1Q20 from 5.5% at end-2018 owing to high financing growth and the write-off of two high-net-worth individuals' exposures representing 1.6% of gross financing. These were two legacy stage 3 exposures which were fully reserved and accounted for 28% of total stage 3 financing at end-2019. As a result, the bank's reserve coverage of stage 3 financing fell to 78% at end-1Q20 from 104% at end-2018.

Stage 2 financing were up 30% in absolute value in 1Q20 and represent 6% of gross financing. They are dominated by exposures in the real-estate and services sector. We expect some migration of stage 2 financings to the stage 3 category and higher restructuring as a result of challenging domestic economic conditions and lingering pressures on the real estate and construction sector. This trend will be exacerbated by rising pressure on borrowers' debt-servicing ability from the economic slowdown due to COVID-19 and lower oil prices.

Performance Below Peers

SIB's operating profit/risk-weighted assets (RWAs) ratio increased to 1.7% in 2019 from 1.6% in 2018 but still sits below the peer average for Fitch-rated UAE banks (2.4% in 2019). The bank's NFM is thinner than peers' due to the bank's larger focus on lower-yielding government financing and to SIB's higher reliance on term deposits (61.5% of total customer deposits at end-2019).

The bank's cost-to-income ratio declined to 50.6% in 2019 from 54.7% in 2018 owing to lower operating expenses but remains well above domestic peers'. FICs eroded 15% of the bank's pre-impairment operating profit in 2019 versus 6.7% in 2018 due to lower recoveries. We expect FICs to increase in 2020-2021 on the back of deterioration in asset quality and lower recoveries as subdued market conditions in the real-estate sector should continue to put pressure on collateral values.

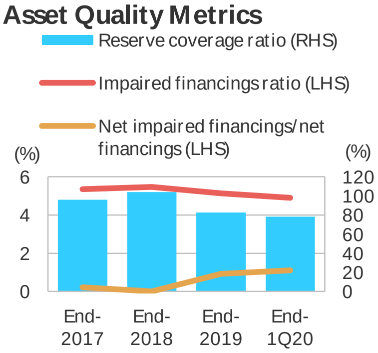
Only Adequate Core Capitalisation

Despite the sharp fall in core capital ratios, the CET1 ratio of 14.9% at end-1Q20 remained above the sector average of 13.9%. We view the bank's loss-absorption capacity as only adequate in light of high credit concentration and modest internal capital generation. SIB's CAR and Tier 1 capital ratio stood at 21.1% and 19.9%, respectively, at end-1Q20, against minimum regulatory requirements of 11.5% and 9.5%; both ratios were boosted in 2019 by the issuance of USD500 million in AT1 sukuk. We expect the bank's CET1 ratio to decline in 2020-2021 on the back of deteriorating profitability and a rise in risk-weighted assets (RWAs) due to some migration of financing to stages 2 and 3.

Sound Funding; Stable Liquidity

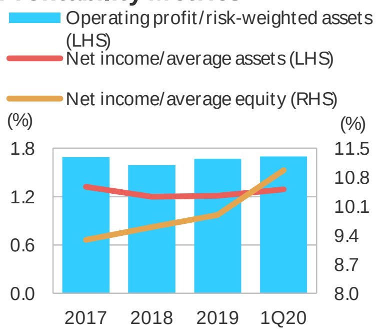
SIB benefits from a loyal customer deposit base from sovereign and public-sector entities. This supports the bank's record in ensuring healthy liquidity even in times of system-wide funding stress, as was observed in 2014-2016. This results, however, in high deposit concentration with the top-20 deposits accounting for 36.4% of total customer deposits at end-2019. 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 tapping the capital markets under the bank's USD3 billion sukuk issuance programme. The bank issued a USD500 million sukuk in June 2020 which was 7X oversubscribed despite less conducive market conditions.

Asset Quality Metrics



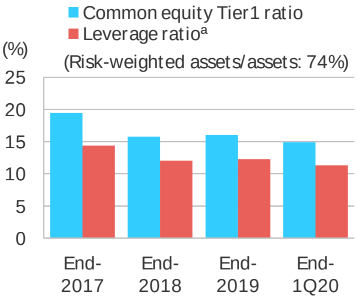
Source: Fitch Ratings, Sharjah Islamic Bank

Profitability Metrics



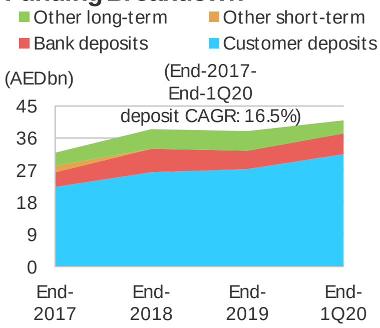
Source: Fitch Ratings, Sharjah Islamic Bank

Capitalisation & Leverage



[a] Tangible common equity/tangible assets
Source: Fitch Ratings, Sharjah Islamic Bank

Funding Breakdown



Source: Fitch Ratings, Sharjah Islamic Bank

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 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 SIB, either due to their nature or to the way in which they are being managed by SIB. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

FitchRatings

Sharjah Islamic Bank PJSC

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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
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 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 Priniciples 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.