

# Permanent TSB Group Holdings plc

## Key Rating Drivers

**Small Irish Mortgage Lender:** Permanent TSB Group Holdings plc's (PTSBGH) ratings reflect its small domestic franchise, which lacks the scale and breadth of the two dominant larger Irish banks, and its simple but undiversified business model that is concentrated on a small market. The ratings also reflect the bank's moderate risk profile and asset quality, satisfactory capitalisation, improved profitability, and a stable but undiversified funding profile underpinned by a granular and stable deposit base.

**Simple, Concentrated Business Model:** PTSBGH is Ireland's third-largest commercial bank, although its asset base trails considerably behind that of its two large domestic peers. It operates exclusively in its home market, with a strategy focused on retail banking and a product offering dominated by mortgage loans and savings. Residential mortgage loans accounted for more than 90% of the bank's total gross loans at end-1H24.

**Risk Profile Moderate; Execution Risk:** Fitch Ratings expects PTSBGH to maintain a conservative risk appetite, given its focus on low-risk residential mortgage lending in Ireland. Planned growth in SME lending and asset finance poses some risk in the medium term due to the bank's more limited record in these segments. However, we expect the risks will be contained and should not result in a material change in the bank's risk profile as growth will be fairly modest overall and highly granular, while SME lending will be mostly secured on property.

**Satisfactory Credit Quality:** The bank's impaired loan ratio fell to 1.7% at end-1H24 (end-2023: 3.3%) due to the non-performing loan (NPL) portfolio sale, and was lower than its domestic peer average of about 3%. We expect some near-term asset quality weakening due to the lagged impact of higher rates and lingering macroeconomic uncertainty. However, deterioration is likely to be modest, and moderate loan growth should keep the ratio close to 2% over the next 24 months.

**Adequate Profitability:** Profitability improvement in 2023 was largely sustained in 1H24, benefitting from a significantly larger asset and revenue base and higher net interest margins due to more favourable asset yields and deposit margins. We expect operating profit to be sustained above 1% of risk-weighted assets (RWAs; 1H24: 1.3%) in 2024 and 2025.

**Satisfactory Capitalisation, Improved Capital Generation:** Our view of capitalisation considers PTSBGH's satisfactory buffers above regulatory minimum requirements, its moderate risk profile, and improved internal capital generation. Its fully loaded common equity Tier 1 (CET1) ratio (end-1H24: 14.5%) was in line with its long-term target minimum of around 14%.

**Stable Deposit Funding:** Stable and granular retail deposits form the bulk of PTSBGH's funding (about 84% at end-1H24), underpinning Fitch's assessment of the bank's stable funding and satisfactory liquidity. Wholesale funding is limited to building resolution buffers, but is more sensitive to investor confidence and more expensive than at larger Irish peers.

**Holdco VR Equalised with Opco:** Fitch assesses the group on a consolidated basis. PTSBGH acts as the holding company of the Permanent TSB group and the issuing entity to meet the group's minimum requirements for own funds and eligible liabilities (MREL). PTSBGH's Viability Rating (VR) is aligned with that of Permanent TSB plc (PTSB), to reflect the absence of material double leverage at the holding company and prudent liquidity management.

## Ratings

### Foreign Currency

Long-Term IDR	BBB-
Short-Term IDR	F3

Viability Rating	bbb-
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Government Support Rating	ns
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### Sovereign Risk (Ireland)

Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA
Country Ceiling	AAA

### 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 \(March 2024\)](#)

## Related Research

[Global Economic Outlook \(June 2024\)](#)

[Fitch Upgrades Ireland to 'AA'; Outlook Stable \(May 2024\)](#)

[Fitch Upgrades Permanent TSB Group to 'BBB-'; Outlook Stable \(February 2024\)](#)

## Analysts

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## Rating Sensitivities

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

We believe the VRs have strong headroom at the current rating level. However, a downgrade could be triggered by a severe and prolonged deterioration of the operating environment for banks in Ireland, affecting borrowers' repayment capacity and weakening PTSBGH's business and financial profiles.

A downgrade could also be triggered by a sharp and sustained increase in the impaired loan ratio above 4%. This may result from sustained high levels of growth in non-mortgage lending and would lead to a reassessment of the group's risk profile. This would pressure profitability and capitalisation through higher impairment charges and lower internal capital generation, and a downgrade would also require the operating profit to fall to – and be sustained at – below 1% of RWAs, and the CET1 ratio to be maintained below 14%.

PTSBGH's VR would also be downgraded if the holding company's double leverage is sustained above 120%, which we do not expect.

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

An upgrade would require successful execution of the growth strategy over a sustained period without a significant increase in problem loans, as reflected in an impaired loan ratio sustained below 3%, while maintaining its moderate risk profile and satisfactory capitalisation, with the CET1 ratio above 14%.

An upgrade could also result from improved profitability, as reflected in the operating profit rising to close to 2% of RWAs on a sustained basis, and a stronger business profile, as reflected in greater earnings diversification, while maintaining its market share of residential mortgage lending.

## Other Debt and Issuer Ratings

Issuer ratings	PTSB	PTSBGH
Long-Term IDR	BBB/Stable	BBB-/Stable
Short-Term IDR	F3	F3
Viability Rating	bbb-	bbb-
Government Support Rating	ns	ns
Debt ratings		
Senior unsecured	BBB	BBB-

Source: Fitch Ratings

### Debt Buffers Drive OpCo IDR Uplift

PTSB's Long-Term IDR is notched up once from the VR to reflect the additional protection to external senior creditors afforded by internal MREL debt buffers. These buffers are underpinned by the group's strategy to fulfil MREL exclusively with holding company senior unsecured and more junior debt. Under the group's single-point-of-entry resolution strategy, senior debt issued at the holding level is channelled to PTSB and statutorily subordinated to external senior creditors. We expect the buffer to remain large. Our expectation is based on PTSB's need to maintain compliance with its MREL of 28.6% (including the combined buffer requirement) of RWAs. Its MREL ratio was 35.2% at end-1H24.

PTSBGH's and PTSB's Short-Term IDRs of 'F3' are mapped to their Long-Term IDRs of 'BBB-' and 'BBB', respectively.

### Debt Ratings Aligned with IDRs

The long-term ratings for PTSBGH's and PTSB's EUR15 billion euro note issuance programme are aligned with their respective Long-Term IDRs. This is because we believe default on senior unsecured obligations from the programme would equate to a default of the issuers themselves and we expect recoveries to be average.

**Ratings Navigator**

**Permanent TSB Group Holdings plc**



**Banks**  
Ratings Navigator

	Operating Environment	Business Profile	Risk Profile	Financial Profile			Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
				Asset Quality	Earnings & Profitability	Capitalisation & Leverage				
		20%	10%	20%	15%	25%	10%			
aaa								aaa	aaa	AAA
aa+								aa+	aa+	AA+
aa								aa	aa	AA
aa-								aa-	aa-	AA-
a+								a+	a+	A+
a								a	a	A
a-								a-	a-	A-
bbb+								bbb+	bbb+	BBB+
bbb								bbb	bbb	BBB
bbb-								bbb-	bbb-	BBB- Sta
bb+								bb+	bb+	BB+
bb								bb	bb	BB
bb-								bb-	bb-	BB-
b+								b+	b+	B+
b								b	b	B
b-								b-	b-	B-
ccc+								ccc+	ccc+	CCC+
ccc								ccc	ccc	CCC
ccc-								ccc-	ccc-	CCC-
cc								cc	cc	CC
c								c	c	C
f								f	ns	D or RD

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. At end-2023, the four-year average impaired loan ratio was 4.9%, resulting in the implied asset quality score for PTSBGH changing to the 'bbb' category, which is in line with the assigned score.

**VR - Adjustments to Key Rating Drivers**

The operating environment score of 'a-' is below the 'aa' category implied score due to the following adjustment reasons: size and structure of economy (negative) and reported and future metrics (negative).

The asset quality score of 'bbb-' is above the 'bb' category implied score due to the following adjustment reason: historical and future metrics (positive).

The earnings and profitability score of 'bbb-' is above the 'bb' category implied score due to the following adjustment reason: historical and future metrics (positive).

The capitalisation & leverage score of 'bbb' is below the 'a' category implied score due to the following adjustment reason: risk profile and business model (negative).

The funding & liquidity score of 'bbb' is below the 'a' category implied score due to the following adjustment reason: non-deposit funding (negative).

## Company Summary and Key Qualitative Factors

### Business Profile

PTSBGH is a small domestically focused retail bank serving around 1.3 million customers in Ireland. It has good brand recognition in its home market as a mortgage (market share: about 20%) and savings (12%) provider. PTSBGH's acquisition of EUR6.7 billion of performing non-tracker residential mortgage and SME loans, and asset finance from Ulster Bank, increased its balance sheet by around 30%, helping to reinforce its business profile, and strengthen profitability and its overall financial profile.

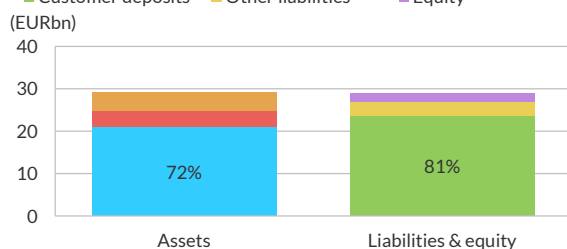
The bank's modest business and product diversification results in a fairly low-risk, but undiversified, business model, constraining its business profile. PTSBGH's focus on lending operations results in a particularly high reliance on net interest income (NII), similar to its domestic peers, which accounts for about 90% of its revenue.

The strategic plan to 2026 focuses on organic balance sheet and capital growth, improving the bank's customer service proposition, simplifying its products and processes, and leveraging data to deepen its customer relationships. Financial goals by end-2026 include aims for a return on equity of around 10%, a net interest margin of about 2.3%, a cost/income ratio of around 60%, loan impairment charges below 30bp, and a minimum fully loaded CET1 ratio above 14%. Fitch believes the targets are largely achievable.

### Balance Sheet

End-June 2024

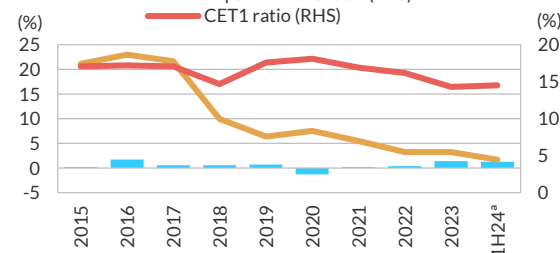
Customer loans    Securities    Other assets  
 Customer deposits    Other liabilities    Equity



Source: Fitch Ratings, Fitch Solutions, PTSB

### Performance Through the Cycle

Operating profit/RWAs (LHS)  
 Impaired loans ratio (LHS)  
 CET1 ratio (RHS)



\* Annualised  
 Source: Fitch Ratings, Fitch Solutions, PTSB

### Risk Profile

PTSBGH is mostly exposed to credit risk from its lending operations, with customer loans representing over 70% of its total assets at end-1H24. The loan book is concentrated by asset class and geography. Risk governance is in line with the industry and the bank's underwriting aligned with the wider market practice. Risk controls may lack some depth and sophistication compared to higher-rated peers', but are largely commensurate with the bank's simple business model.

Fitch expects lower-risk Irish mortgage loans to continue to dominate PTSBGH's loan book into the long term. These loans are predominantly owner-occupied, with sound underwriting standards based on affordability, resulting in generally good credit quality, which we expect to continue. At end-2023, around 66% of outstanding residential mortgage loans have been originated since 2015 when prudential mortgage rules were introduced in Ireland (end-2021: 43%). The weighted average loan-to-value of the book was 50%, with new mortgage loans originated during 1H24 at a weighted average of 74%, which was broadly in line with domestic peers. Loans to SMEs, asset finance and consumer lending (each at 2%–3% of total loans) accounted for the remainder, and together should not represent much more than 10% over the medium term, despite the bank's plans to grow these books, particularly SME lending.

PTSBGH's securities portfolio (end-1H24: EUR3.9 billion, equivalent to around 13% of assets) is held for liquidity purposes, and was almost entirely comprised of sovereign bonds. The bank has no trading book exposure. Investment guidelines require an investment-grade credit rating, resulting in exposure being mostly to debt securities rated 'AA-' and above, including Irish sovereign debt (EUR1.5 billion; equivalent to about 90% of CET1 capital).

Exposure to market risk is modest and consists almost solely of interest-rate risk. This is managed through the matching of balance-sheet asset and liability maturities that, if necessary, is supplemented by interest rate swaps to maintain risk levels within prescribed tolerances. At end-1H24, PTSBGH estimated the sensitivity of an immediate and sustained 100bp reduction in interest rates on NII over a 12-month period to be a moderate 4% of its annualised 1H24 NII (end-2023: 5%).

## Financial Profile

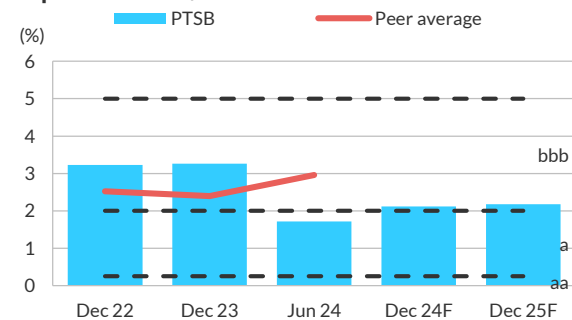
### Asset Quality

PTSDBGH's asset quality metrics have considerably improved with the agreement to sell a EUR348 million portfolio of legacy mortgage NPLs from across its owner-occupied and buy-to-let (BTL) books. Deterioration in borrower repayment capacity due to higher interest rates and the still-weak global economic outlook is likely to result in some near-term pressure on credit quality, but some organic loan growth should ensure that an increase in the impaired loan ratio remains manageable over the next two years.

Credit quality in the owner-occupied mortgage book, as reflected in a Stage 3 ratio of 1.3% (end-2023: 2.1%), was better than that of Irish peers. Impaired loan inflows have mostly been attributable to borrowers on tracker mortgage loans whose rates have risen in line with the ECB policy rate. We expect some further weakening in the performance of these mortgage loans in 2H24 as the lagged effect of higher interest rates increasingly challenges more vulnerable borrowers. However, we expect further cuts to the ECB rate later this year should provide respite to tracker holders, and ensure that further weakening remains manageable for the bank. The portion of tracker mortgage loans from the total mortgage portfolio had fallen to about 15% by end-1H24 (end-2023: 17%). The BTL mortgage loan portfolio continues to be a significant source of credit risk, with a Stage 3 ratio of around 15% at end-1H24 (end-2023: 36%), but these loans only accounted for about 2% of PTSDBGH's total loans.

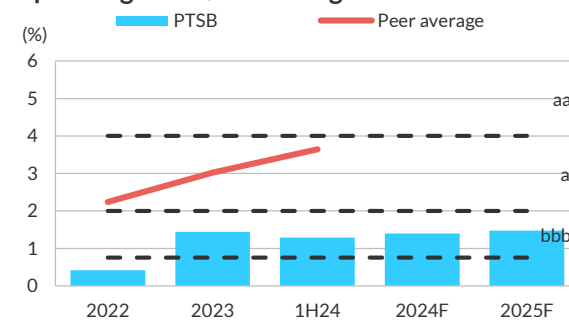
Loan-loss allowance coverage, as a proportion of impaired loans, rose to a high 113% (end-2023: 79%) and was well above the peer average. Fitch views coverage as strong due to the largely secured loan book. Specific coverage for Stage 3 loans was stable at 35%. Total allowances included EUR83 million of post-model adjustments, equivalent to a high 38bp of average gross loans. Better asset quality and buoyant house prices resulted in a release of loan impairments equivalent to about 13bp of average gross loans in 1H24, and the bank has aimed for a release for the full year close to 10bp, which we view as reasonable.

### Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

### Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

### Earnings and Profitability

The operating profit/RWAs ratio was fairly steady at 1.3% in 1H24 (end-2023: 1.4%), but was still considerably weaker than the peer average of above 3%. We expect profitability to be more stable than in the past given PTSDBGH's larger balance sheet, but earnings will remain undiversified.

Operating income grew 4% year-on-year (yoy) to EUR336 million in 1H24, driven by a 4% increase in NII that benefitted from higher interest rates. We expect the net interest margin (1H24: 2.3%) to be sustained at a similar level in the near term despite the prospect of ECB rate cuts, given the large share of fixed-rate assets on the balance sheet and some further repricing potential. Fee and commission income was unchanged yoy, but should benefit in the near term from higher pricing and business volumes. However, this is unlikely to lead to a significant shift in the proportion of non-NII revenue.

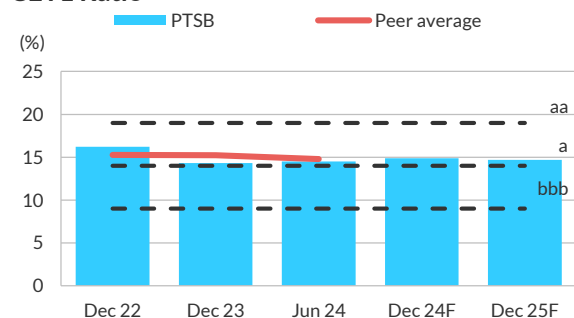
Operating expenses grew 20% yoy due to the bank's larger scale and investments in its growth strategy. Staff costs rose 16%, driven by a 24% increase in average employee numbers and wage inflation. The cost/income ratio rose to 82% (2023: 75%), considerably above the peer average of about 50%.

**Capitalisation and Leverage**

PTSBGH's CET1 ratio (end-1H24: 14.5%) was in line with its peer average and well above its 10.3% minimum requirement. The requirement is set to increase by 0.5% from January 2025 following PTSBGH's designation by the central bank as a systemically important institution, but we expect this to be manageable for the bank. A prohibition on dividends was rescinded by the central bank in December 2023, but we do not expect potential capital distributions to pressure capitalisation given the bank's long-term minimum CET1 ratio target of 14%.

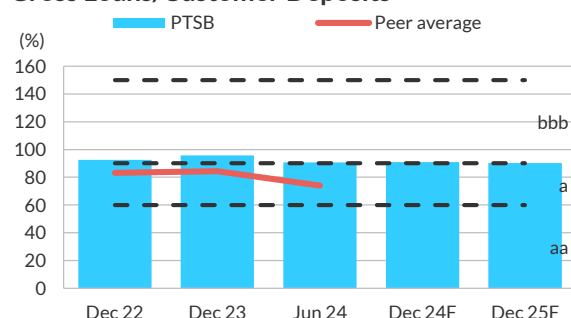
PTSBGH's MREL ratio (end-1H24: 35.2% of RWAs) was above its requirement (28.6%, including its combined buffer requirement), and we expect the ratio to continue to have an adequate buffer above the regulatory requirement.

**CET1 Ratio**



Source: Fitch Ratings, Fitch Solutions, banks

**Gross Loans/Customer Deposits**



Source: Fitch Ratings, Fitch Solutions, banks

**Funding and Liquidity**

Customer deposits accounted for about 88% of total non-equity funding at end-1H24 and are a stable source of funding due to PTSBGH's granular customer base. The NPL portfolio sale, slower new mortgage loan origination, and robust deposit growth led the loans/deposits ratio to fall to 91% (end-2023: 96%) and we expect it to be maintained above 90% in the medium term. Over the longer term, deposit growth should be supported by Ireland's favourable economic growth prospects and demographics. Liquidity is satisfactory, as reflected in a pool of cash and balances at central banks, and investments in government securities that comfortably covered all wholesale funding.

Access to wholesale funding is less established than at larger domestic peers, with issuance undertaken exclusively for capital and MREL purposes given the ample liquidity. PTSBGH issued an MREL-eligible EUR500 million green senior unsecured bond in 1H24 and Fitch expects further wholesale issuance will be necessary in the next few years to cover maturities and maintain its buffers, but at levels that are unlikely to significantly increase funding diversification.

**Additional Notes on Charts**

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category.

Peer average includes Bank of Ireland Group plc (bbb+), AIB Group plc (not rated), ABANCA Corporacion Bancaria, S.A. (bbb-), Banco Comercial Portugues, S.A. (bbb-), Banca Popolare di Sondrio - Societa per Azioni (bbb-), Ceska Sporitelna, a.s. (a), Mizrahi Tefahot Bank Ltd (a-). Peer average at end-1H24 excludes Banca Popolare di Sondrio - Societa per Azioni, Ceska Sporitelna, a.s. and Mizrahi Tefahot Bank Ltd.

## Financials

### Financial Statements

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	Year end (USDm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
<b>Summary income statement</b>					
Net interest and dividend income	334	311	620	362	313
Net fees and commissions	25	23	42	42	35
Other operating income	2	2	6	9	13
Total operating income	361	336	667	413	361
Operating costs	298	277	498	399	345
Pre-impairment operating profit	63	59	170	14	16
Loan and other impairment charges	-15	-14	4	-31	-1
Operating profit	78	73	166	45	17
Other non-operating items (net)	2	2	-87	222	-38
Tax	13	12	11	44	-1
Net income	68	63	68	223	-20
Other comprehensive income	0	0	-4	-4	4
Fitch comprehensive income	68	63	64	219	-16
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	22,996	21,402	21,997	20,114	14,860
- Of which impaired	395	368	718	650	817
Loan loss allowances	445	414	570	521	604
Net loans	22,552	20,988	21,427	19,593	14,256
Interbank	3,393	3,158	2,051	2,123	4,174
Derivatives	11	10	36	0	1
Other securities and earning assets	4,207	3,915	3,277	3,220	2,522
Total earning assets	30,162	28,071	26,791	24,936	20,953
Cash and due from banks	97	90	111	98	77
Other assets	1,059	986	853	899	1,205
Total assets	31,318	29,147	27,755	25,933	22,235
<b>Liabilities</b>					
Customer deposits	25,365	23,606	22,966	21,730	19,089
Interbank and other short-term funding	657	611	398	614	347
Other long-term funding	2,422	2,254	1,769	910	776
Trading liabilities and derivatives	12	11	1	13	0
Total funding and derivatives	28,455	26,482	25,134	23,267	20,212
Other liabilities	219	204	202	268	234
Preference shares and hybrid capital	395	368	368	368	123
Total equity	2,249	2,093	2,051	2,030	1,666
Total liabilities and equity	31,318	29,147	27,755	25,933	22,235
Exchange rate		USD1 = EUR0.930665	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

Source: Fitch Ratings, Fitch Solutions, PTSBGH

## Key Ratios

	30 Jun 24	31 Dec 23	31 Dec 22	31 Dec 21
<b>Ratios (%; annualised as appropriate)</b>				
<b>Profitability</b>				
Operating profit/risk-weighted assets	1.3	1.4	0.4	0.2
Net interest income/average earning assets	2.3	2.4	1.6	1.5
Non-interest expense/gross revenue	82.4	74.6	96.6	95.6
Net income/average equity	6.1	3.3	12.6	-1.2
<b>Asset quality</b>				
Impaired loans ratio	1.7	3.3	3.2	5.5
Growth in gross loans	-2.7	9.4	35.4	-0.5
Loan loss allowances/impaired loans	112.5	79.4	80.2	73.9
Loan impairment charges/average gross loans	-0.1	0.0	-0.2	0.0
<b>Capitalisation</b>				
Common equity Tier 1 ratio	14.5	14.3	16.2	16.9
Fully loaded common equity Tier 1 ratio	14.5	14.0	15.2	14.7
Tangible common equity/tangible assets	5.5	5.7	6.0	5.4
Basel leverage ratio	6.9	7.3	8.0	7.1
Net impaired loans/common equity Tier 1	-2.8	9.0	7.5	14.6
<b>Funding and liquidity</b>				
Gross loans/customer deposits	90.7	95.8	92.6	77.9
Liquidity coverage ratio	232.0	220.0	178.0	274.0
Customer deposits/total non-equity funding	88.0	90.1	92.0	93.9
Net stable funding ratio	166.0	155.0	154.0	170.0

Source: Fitch Ratings, Fitch Solutions, PTSBGH



## Support Assessment

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

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

■ Higher influence
 ■ Moderate influence
 ■ Lower influence

Note: The sovereign rating was 'AA-/Positive' at the time of PTSBGH's rating committee, as shown above. It was upgraded to 'AA/Stable' on 31 May 2024.

The Government Support Ratings of 'no support' (ns) reflect our belief that PTSBGH and PTBSB's senior creditors cannot rely on extraordinary support from the Irish authorities if the bank is declared non-viable. This is in line with other Irish and eurozone banks. We believe the authorities' propensity to support the banking system, and their ability to do so ahead of senior bondholders participating in losses, has decreased materially following the implementation of recovery and resolution legislation.

Environmental, Social and Governance Considerations

FitchRatings Permanent TSB Group Holdings plc

Banks  
Ratings Navigator

Credit-Relevant ESG Derivation

Permanent TSB Group Holdings plc has 5 ESG potential rating drivers

- ➔ Permanent TSB Group Holdings plc has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- ➔ Governance is minimally relevant to the rating and is not currently a driver.

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

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1 n.a.	n.a.	n.a.	5
Energy Management	1 n.a.	n.a.	n.a.	4
Water & Wastewater Management	1 n.a.	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1 n.a.	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

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

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

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

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.	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

**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.

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

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

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

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