FitchRatings

Banks
Retail & Consumer Banks
Spain

# Santander Consumer Finance, S.A.

## Ratings

| | |
|---|---|
| **Foreign Currency** | |
| Long-Term IDR | A- |
| Short-Term IDR | F2 |
| Viability Rating | a- |
| Support Rating | 1 |
| **Sovereign Risk** | |
| Long-Term Foreign- and Local-Currency IDRs | A- |
| Country Ceiling | AAA |
| **Outlooks** | |
| Long-Term Foreign-Currency IDR | Negative |
| Sovereign Long-Term Foreign- and Local-Currency IDRs | Stable |

## Applicable Criteria

Bank Rating Criteria (February 2020)

## Related Research

Spanish Banks May Be Next to Apply Full Depositor Preference (November 2020)

Global Economic Outlook - September 2020

Fitch Affirms Santander at 'A-'; Outlook Negative (June 2020)

## Analysts


Pau Labró Vila, CFA
+34 93 494 3464
pau.labrovila@fitchratings.com

Raphael Nascimento
+34 93 323 8406
raphael.nascimento@fitchratings.com


## Key Rating Drivers

**VR Drives IDRs:** Santander Consumer Finance, S.A.'s (SCF) Issuer Default Ratings (IDRs) are driven by its intrinsic strength, as reflected in its Viability Rating (VR). The IDRs are further underpinned by potential shareholder support. Fitch Ratings believes its parent, Banco Santander, S.A. (A-/Negative), has strong incentives to provide support to fully owned SCF as a core and integral part of the group, given that it manages most of Banco Santander's consumer finance operations in Europe.

**Sound Standalone Profile:** SCF's VR reflects a strong consumer finance franchise in Europe, sound earnings generation capacity through economic cycles and adequate funding structure, the latter benefiting from ordinary support from its parent. The VR also factors in a degree of stability in its asset quality despite the cyclical nature of its business, aided by the bank's geographical diversification, and a large proportion of less risky secured consumer lending.

**Leading Franchise in Auto Loans:** SCF has a leading franchise in European consumer finance, with a clear bias towards strong northern countries. The bank's business model benefits from the granular nature of its client base, adequate product distribution and the agreements with auto-manufacturers and retail store chains, providing recurrent business volumes and satisfactory credit loan quality.

**Resilient Profitability:** SCF's franchise, adequate risk-pricing and operating efficiency results in resilient profitability structurally, which is a key rating strength, despite a low interest rate environment and increased competition in some of its geographies. Operating profit has been on average 2.3% of risk-weighted assets (RWAs) over the past 10 years, with limited volatility.

**Well-Managed Credit Risks:** Asset-quality metrics have proved resilient over the economic cycle as SCF's risk profile benefits from its well-balanced geographic footprint and a large proportion of less-risky secured lending, mainly auto loans. It also benefits from tight risk management controls and prudent risk appetite across the different geographies.

**Adequate Capitalisation:** Capitalisation levels are adequate given SCF's credit risk profile, limited market risks and ordinary support from the parent. SCF has limited flexibility to retain earnings as its capitalisation is managed on a "need-cost optimisation" basis by the parent.

## Rating Sensitivities

**Parent Rating, VR:** SCF's IDRs would be downgraded if both Banco Santander's IDRs and SCF's VR were downgraded. SCF's IDRs also remain sensitive to a downgrade of Spain's sovereign rating. The most likely trigger for a downgrade of SCF's VR would be the bank's inability to maintain its good earnings generation capacity, resulting in an operating profit structurally below 2% of RWAs and without credible prospects to restore over the medium term. A lower operating environment score (currently 'a-') would also likely trigger a downgrade of the VR.

SCF's VR is also sensitive to a downgrade of Banco Santander's VR and Long-Term IDR given the contagion stemming from the close interlinks between the two banks in the form of operational integration, intragroup funding, and the parent bank's capital policy.

**Stable Outlook:** The Outlook could be revised to Stable following similar rating action on Banco Santander. An Outlook revision could also occur if SCF managed the challenges arising from the economic downturn successfully, limiting downside risks to its asset quality and profitability, as well as contagion risks from the parent.

## Debt Rating Classes

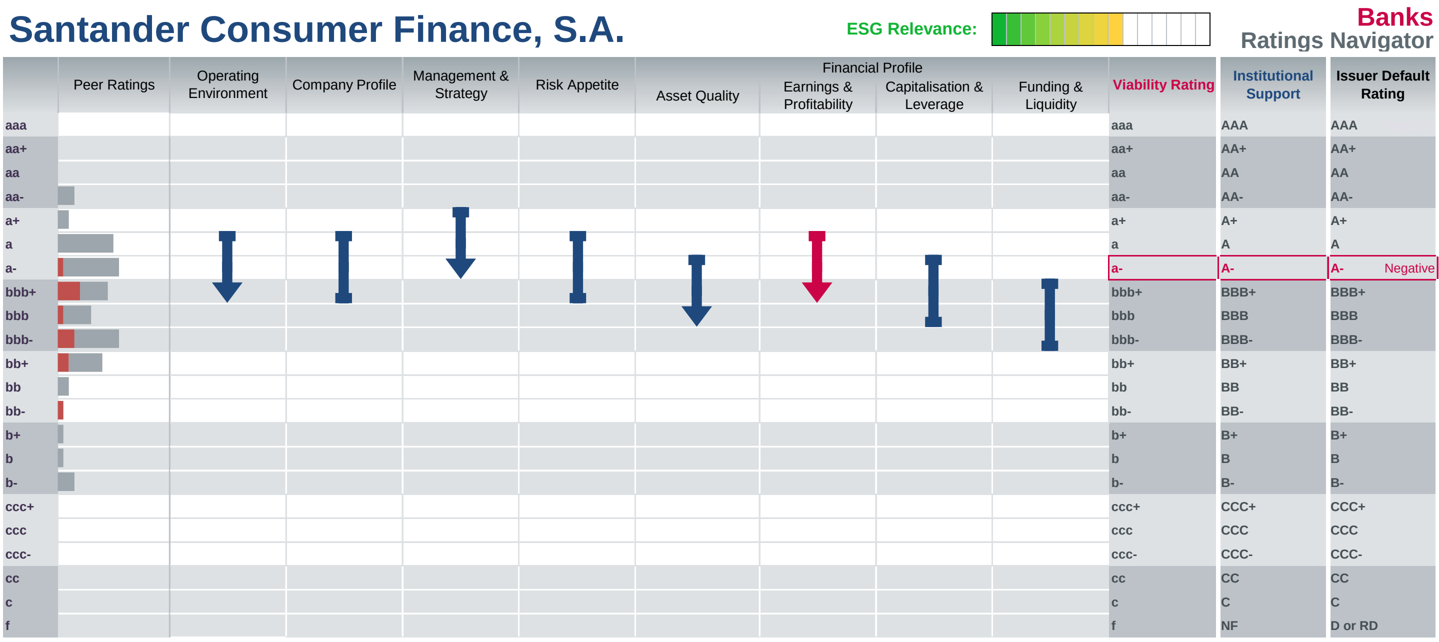
| Rating Level | Rating |
|---|---|
| Deposit rating | A/F1 |
| Senior preferred debt | A/F1 |

Source: Fitch Ratings

SCF's long-term senior preferred debt and deposit ratings are rated one notch above SCF's and Banco Santander's Long-Term IDRs to reflect the protection that accrues from buffers of junior and senior non-preferred debt in the resolution perimeter. Fitch estimates that the buffer of qualifying junior debt and senior non-preferred debt exceeds 10% of RWAs (after deconsolidating subsidiaries that are in different resolution groups) on a sustained basis. The combination of these buffers was 12.5% of RWAs at end-2019. We expect Banco Santander to continue issuing a significant volume of senior non-preferred, and junior debt to continue meeting the group's minimum requirement for own funds and eligible liabilities (MREL) and subordination requirements.

The short-term senior preferred debt and deposit ratings of 'F1' benefit from the fact that equivalent long-term senior debt and deposit ratings have been notched up to reflect protection.

## Ratings Navigator - Standalone Assessment




**Bar Chart Legend**

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

| | |
|---|---|
| ⇧ Positive | ⇩ Negative |
| ⇳ Evolving | ▫ Stable |

## Institutional Support Assessment

| Institutional Support | | | Value |
|---|---|---|---|
| Parent IDR | | | A- |
| Total Adjustments (notches) | | | +0 |
| **Institutional Support:** | | | **A-** |

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

Our assessment of institutional support, which is reflected in a Support Rating (SR) of '1', factors in our view SCF is a core and integral part of Banco Santander's group, resulting in an extremely high probability of support if needed. The SR also factors in that the parent and SCF operate in the same jurisdiction, are subject to the same regulations and under Banco Santander's multiple point-of-entry resolution strategy, and belong to the same resolution perimeter in Spain.

The high degree of integration of SCF's operations, risk management and controls, as well as management and corporate culture with those of Banco Santander, SCF's long and successful record in supporting group objectives and brand-sharing, also contribute to our overall support assessment.

## Significant Changes

### Deterioration in SCF's Operating Environment

In our assessment of SCF's operating environment, we factor in the proportion of its business and risk exposures in markets other than its home country of Spain. The operating environment score for the bank (a-) is one notch above the mid-point operating environment score assigned to Spanish domestic banks. This reflects the benefits of SCF's international diversification, including into stronger economies than its home Spanish market.

The most significant markets for the group are Germany, the Nordics, Spain and France. However, Spain has a proportionately higher influence given the fact that the group's credit profile is correlated with that of Spanish sovereign, as reflected in the sensitivity of the group's overall performance to the operating environment in Spain.

All economies where SCF operates will be negatively impacted by the coronavirus crisis, albeit to different degrees. We revised the outlook of the Spanish operating environment to negative from stable in March 2020 on material downward revision in our GDP forecasts for Spain, which has been among the most severely affected countries within the eurozone.

Fitch expects eurozone GDP to fall by 9% in 2020, reflecting the restrictive measures to slow the spread of the pandemic, the global recession and the sharp fall in most affected sectors, such as tourism. The sharp rise in new virus cases in Spain and France as mobility rates rose in the past few months underscores the downside risk to the forecasts from a renewed deterioration in the health crisis.

### Fitch GDP Growth Projections (%)

| Country (OES) | 2019 | 2020f | 2021f |
|---|---|---|---|
| Germany (aa-/Negative) | 0.6 | -6.3 | 5.4 |
| Norway (aa/Negative) | 1.2 | -2.3 | 3.8 |
| Spain (bbb+/Negative) | 2.0 | -13.2 | 6.2 |
| France (aa-/Negative) | 1.5 | -10.5 | 5.4 |
| Italy (bbb-/Negative) | 0.3 | -10.0 | 5.4 |

OES: Operating Environment Score
Source: Fitch Ratings, Fitch Solutions

The scale and scope of policy responses by the national and European authorities, including the ECB's Quantitative Easing, and the recently agreed Recovery Plan for Europe, are limiting the extent of the collapse in activity and will support above-trend economic growth through 2022. Nevertheless, Fitch still expects pronounced increases in unemployment in 2H20-2021 as job subsidies are pared down and hard-hit labour-intensive sectors, such as tourism and hospitality, continue to deal with social distancing disruptions.

In terms of new vehicle sales, the European market has been particularly affected by lockdown measures, with a fall of 29% yoy in 9M20. SCF's new lending declined also in 9M20 but at a slower pace (13% lower yoy). The largest declines in new lending were in Portugal (minus 44%), Spain (minus 33%) and Italy (minus 17%). The German and Nordic units, which represent more than half of SCF's geographic exposure, were more resilient (minus 5% and minus 7%, respectively). SCF's new business volumes recovered in 3Q20, following acute declines in the previous quarter.

## Planned Integration of Openbank

In 3Q20 results presentation, Banco Santander announced that Openbank's European operations will be integrated into SCF to foster growth in the digital lending business. Openbank is a digital platform that offers retail banking services (including mortgage loans and deposits) with about EUR10 billion of assets in Spain. This entity is also present in Germany, Netherlands and Portugal after expanding its geographical activities in 2019.

## Company Summary

### Leading European Consumer Finance Franchise

SCF is the consumer lending arm of the Santander group in Europe and benefits from the relationship with its parent, including technology synergies and client relationships. SCF has built one of the leading consumer finance franchises in Europe and ranks among the top three in most of its operating markets, giving it a degree of pricing power in some product lines. The bank's franchise has been strengthened in recent years through acquisitions and the creation of joint ventures with industrial partners.

SCF operates a monoline business model with new and used care financing as core businesses, although the bank has expanded its product range to durables financing and other consumer lending segments in the past few years. Net interest income from its lending activities is SCF’s main revenue source (80% of total revenue in 2019) and is complemented by fee and commission income (18%), largely stemming from the sale of insurance products to customers.

SCF is a Spain-based operating bank that also acts as the holding company for the businesses in the rest of continental Europe. SCF has an active approach to managing its various units and deploying uniform risk-management systems, although each operating unit is responsible for its own funding, liquidity and capital management, in line with Santander’s model.

### Execution Risks in Sourthern European Units

SCF's strategic plan remains focused on strengthening the franchise in consumer finance and e-commerce financing to online buyers and merchants, extending and renewing captive agreements, improving cost-to-income ratios in less-efficient units, and investing in digitalisation and analytics capabilities to enhance customer experience. SCF’s financial targets for the medium term include an underlying return on tangible equity of 14%-15%, a reduction of the cost to income ratio to around 40%, and the maintenance of the Common Equity Tier 1 (CET1) ratio at above 12%.

SCF has historically implemented its strategy and business plans, aided by the quality of the management, geographical diversification and parent support. However, the execution of the strategy will be more challenging given the economic fallout from the pandemic, particularly in Spain and Italy where the decline in new car sales has been more acute. We believe that SCF will be challenged in achieving stated business growth and profitability targets, at least in the short-term, and might struggle to maintain its current sound asset quality metrics.

### Cyclical Business but Highly Collateralised

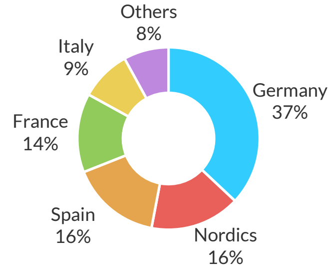
SCF’s main risk is credit risk stemming from its lending activities (83% of total assets at end-June 2020), as its securities portfolio is small and mostly held to comply with regulatory liquidity requirements. SCF’s risk profile benefits from its larger-than-peers’ exposure to less risky collateralised auto and mortgage loans. SCF's loan book is granular given its retail nature (88% at end-June 2020, witch stock finance accounting for the remaining 12%).

SCF’s risk appetite also benefits from a sound risk management framework, adequate collateral management and consistency underwriting standards, which is reflected in some resilience in earnings and asset-quality metrics through the cycle. The entity has enhanced its admission risk model for retail lending through an increased automation level. For wholesale lending related to car stock financing, the admission process is based on internal ratings, with different levels of delegated authorities. SCF monitors ageing stock and sets ad hoc plans for preventing or mitigating obsolescence risks. Write-offs and foreclosures are used as work-out tools for impaired loans and are complemented by a strong collection model, including a team specialised in recoveries, and portfolio sales on a recurring basis.

SCF is adhered to Santander group's operational risk framework, with a set of processes, indicators and assessment to monitor non-financial risk exposure. Operational losses have remained within modest levels in recent years, and mainly are related to external fraud and customer claims.

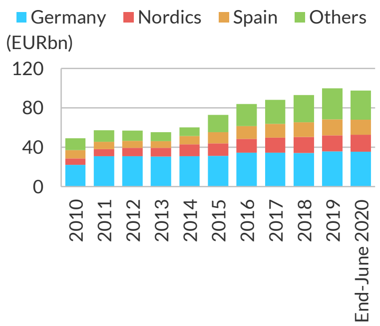
In response to the COVID-19 crisis, SCF has undertaken several initiatives, including special committees to regular monitoring business and financial indicators. The bank has also extended credit relief measures and enhanced its collection process to prevent early arrears due to the current environment.

### Loan Book by Country at End-June 2020



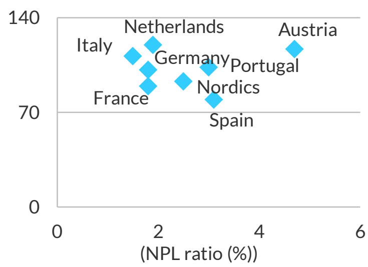

Source: Fitch Ratings, SCF

### Evolution of Loans



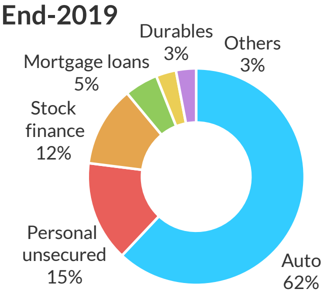

Source: Fitch Ratings, SCF

### Asset Quality by Market at End-June 2020




Source: Fitch Ratings, SCF

### Loan Book by Product at End-2019




Source: Fitch Ratings, SCF

## Summary Financials and Key Ratios

| | 30 Jun 20 | 31 Dec 19 | 31 Dec 18 | 31 Dec 17 |
|---|---|---|---|---|
| | 6 months - interim | Year end | Year end | Year end |
| | (EURm) | (EURm) | (EURm) | (EURm) |
| | Audited – unqualified (emphasis of matter) | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| **Summary income statement** | | | | |
| Net interest and dividend income | 1,733.9 | 3,428.1 | 3,312.7 | 3,204.9 |
| Net fees and commissions | 328.6 | 787.3 | 764.3 | 845.8 |
| Other operating income | -8.8 | 52.6 | 57.5 | 65.2 |
| Total operating income | 2,053.7 | 4,268.0 | 4,134.5 | 4,115.9 |
| Operating costs | 885.9 | 1,801.2 | 1,763.1 | 1,790.4 |
| Pre-impairment operating profit | 1,167.8 | 2,466.8 | 2,371.4 | 2,325.5 |
| Loan and other impairment charges | 462.7 | 381.0 | 258.9 | 205.2 |
| Operating profit | 705.1 | 2,085.8 | 2,112.5 | 2,120.3 |
| Other non-operating items (net) | -320.9 | -100.5 | -87.4 | -224.7 |
| Tax | 254.5 | 575.2 | 565.9 | 603.7 |
| Net income | 129.7 | 1,410.1 | 1,459.2 | 1,291.9 |
| Other comprehensive income | -135.0 | -66.6 | -49.0 | -89.7 |
| Fitch comprehensive income | -5.3 | 1,343.5 | 1,410.2 | 1,202.2 |
| | | | | |
| **Summary balance sheet** | | | | |
| **Assets** | | | | |
| Gross loans | 97,670.9 | 100,237.0 | 93,788.6 | 88,536.0 |
| - Of which impaired | 2,143.2 | 1,969.8 | 1,861.5 | 1,934.5 |
| Loan loss allowances | 2,176.0 | 1,938.4 | 1,908.2 | 1,900.8 |
| Net loans | 95,494.9 | 98,298.6 | 91,880.4 | 86,635.2 |
| Interbank | 1,051.8 | 158.4 | 152.7 | 125.7 |
| Derivatives | 165.8 | 97.7 | 184.9 | 215.3 |
| Other securities and earning assets | 4,431.5 | 3,298.6 | 3,299.4 | 3,355.0 |
| Total earning assets | 101,144.0 | 101,853.3 | 95,517.4 | 90,331.2 |
| Cash and due from banks | 8,514.8 | 7,829.0 | 5,871.7 | 4,565.2 |
| Other assets | 4,745.8 | 4,900.9 | 4,223.2 | 4,819.9 |
| Total assets | 114,404.6 | 114,583.2 | 105,612.3 | 99,716.3 |
| | | | | |
| **Liabilities** | | | | |
| Customer deposits | 36,168.2 | 37,131.5 | 34,391.1 | 33,389.7 |
| Interbank and other short-term funding | 17,610.5 | 18,939.3 | 20,531.7 | 16,555.8 |
| Other long-term funding | 42,536.5 | 39,565.8 | 33,462.8 | 33,743.2 |
| Trading liabilities and derivatives | 103.9 | 118.6 | 112.2 | 196.7 |
| Total funding | 96,419.1 | 95,755.2 | 88,497.8 | 83,885.4 |
| Other liabilities | 4,860.3 | 5,585.1 | 3,941.4 | 4,070.7 |
| Preference shares and hybrid capital | 1,050.0 | 1,050.0 | 1,050.0 | 850.0 |
| Total equity | 12,075.2 | 12,192.9 | 12,123.1 | 10,910.2 |
| Total liabilities and equity | 114,404.6 | 114,583.2 | 105,612.3 | 99,716.3 |

Source: Fitch Ratings, Fitch Solutions, SCF

## Summary Financials and Key Ratios

| | 30 Jun 20 | 31 Dec 19 | 31 Dec 18 | 31 Dec 17 |
|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 2.0 | 2.9 | 3.1 | 3.2 |
| Net interest income/average earning assets | 3.4 | 3.5 | 3.6 | 3.7 |
| Non-interest expense/gross revenue | 43.9 | 43.0 | 43.6 | 44.5 |
| Net income/average equity | 2.1 | 11.6 | 12.7 | 12.0 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 2.2 | 2.0 | 2.0 | 2.2 |
| Growth in gross loans | -2.6 | 6.9 | 5.9 | 5.2 |
| Loan loss allowances/impaired loans | 101.5 | 98.4 | 102.5 | 98.3 |
| Loan impairment charges/average gross loans | 1.0 | 0.4 | 0.3 | 0.2 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 13.4 | 12.5 | 12.3 | 13.0 |
| Fully loaded common equity Tier 1 ratio | 13.4 | 12.5 | 12.3 | 12.0 |
| Total capital ratio | 16.6 | 15.2 | 14.7 | 15.2 |
| Tangible common equity/tangible assets | 9.0 | 8.9 | 9.6 | 9.0 |
| Basel leverage ratio | 8.8 | 8.5 | 8.7 | 8.9 |
| Net impaired loans/common equity Tier 1 | -0.4 | 0.4 | -0.6 | 0.4 |
| | | | | |
| **Funding and liquidity** | | | | |
| Loans/customer deposits | 270.1 | 270.0 | 272.7 | 265.2 |
| Liquidity coverage ratio | 297.0 | 248.0 | 269.0 | 199.0 |
| Customer deposits/funding | 37.2 | 38.4 | 38.5 | 39.5 |
| Net stable funding ratio | 113.0 | 106.0 | 107.0 | 105.0 |

Source: Fitch Ratings, Fitch Solutions, SCF

## Key Financial Metrics – Latest Developments

### Asset-Quality Deterioration Expected

Our current expectations of less acute increases in unemployment levels, government support measures, and lower indebtedness levels for European households than in the previous economic crisis should limit the increase in impaired loans, although they remain sensitive to downside economic risks, explaining the negative trend on this factor. Spain and Italy are countries with higher asset quality pressures (together they represented about 25% of group total loans at end-June 2020).

SCF front-loaded loan impairment charges (LICs) in 1H20 due to the crisis, increasing the impaired loans coverage ratio to above 100% at end-June 2020. The impact of the crisis on SCF's asset quality was limited in 1H20 as the impaired loan ratio was stable at 2.2% at end-June 2020 (2% at end-2019). The bank has implemented a relatively small amount of loan moratoria (5% of gross loans at end-June 2020) and the bulk of it returned to performing status after expiration in 3Q20.

Despite SCF's cyclical business, the geographic diversification has meant fairly stable asset quality through economic cycles, with an impaired loan ratio ranging between a peak of 5.5% in 2010 (7.6% including net charge-offs) and lowest levels of about 2% in 2016-1H20. At end-June 2020, net write-offs represented 0.4% of gross loans, while portfolio sales declined by 70% yoy as a result of lower investors' appetite.

### Pressures on Operating Profitability

In 1H20, operating profit declined as a result of lower business activity, which particularly affected fees, and higher LIC but it still represented a sound 2% of RWAs (2.9% in 2019). LICs/gross loans increased to 0.95% on an annualised basis (0.4% in 2019), driven by larger expected credit risks and changes in macroeconomic prospects. SCF also recorded a significant impairment of the Nordic unit's goodwill (not included in our estimations of operating profit) that additionally affected the bank's reported net income in 1H20.

Despite revenue pressures, we expect the bank to be able to maintain an operating profit at about 2% of RWAs in the medium term, supported by a recovery in business volumes, lower cost of funding, and contained asset-quality deterioration. In 3Q20, fee income significantly recovered (by about 30% qoq as reported by the entity) due to higher business volumes after lockdown in the previous quarter. SCF is also accelerating efficiency measures with expected savings of EUR120 million (7% of the bank's 2019 cost base) in 2H20-2021. However, downside risks remain if the economic recovery takes longer or is softer.

### Satisfactory Capitalisation Buffers

SCF's CET1 ratio increased to 13.4% at end-June 2020 from 12.5% at end-2019, benefiting from the new capital requirements regulation and other positive one-offs. SCF plans to maintain a dividend pay-out ratio of 50% contingent on regulatory approvals. RWAs represented 61% of total assets at end-June 2020, mostly related to credit risks. SCF is gradually migrating to advanced models for estimating credit risks.

### Diversified Funding Profile

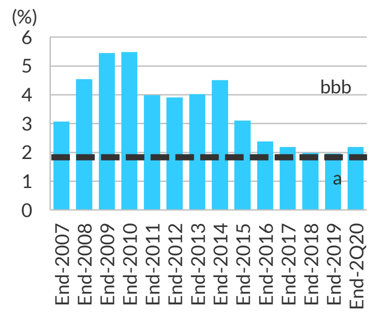
SCF's funding structure is stable and more diversified than wholesale-funded non-bank peers. The bank benefits from its ability to raise deposits, which accounted for about 40% of total funding at end-June 2020 and were mostly originated by the German unit. Wholesale funding comprises unsecured and secured debt (including auto-denominated ABS) and financing from the parent and the ECB, which has increased in the year following the new TLTRO-III.

The bank was able to anticipate part of its annual plan for unsecured debt issuance in early 2020 ahead of the market volatility. Funding from the parent largely coming from the placement of excess group liquidity in SCF also helped reducing funding costs.

SCF manages its liquidity globally and at country level as legal frameworks and internal limits set different requirements for each operating unit. SCF's liquidity profile remains adequate, with a liquidity coverage ratio at 297%, and liquid assets pool at 9% of total assets at end-June 2020. Refinancing risk from debt maturities is mitigated by the short-term nature of its loan book.

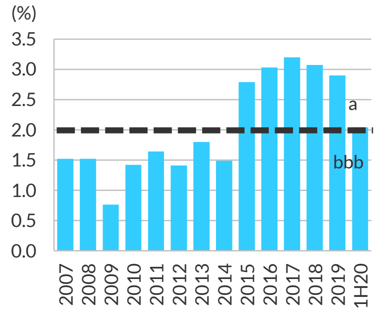
**Notes on charts:** Black dashed lines represent indicative quantitative ranges for core financial metrics given an operating environment score of 'a'.

### Impaired Loan Ratio



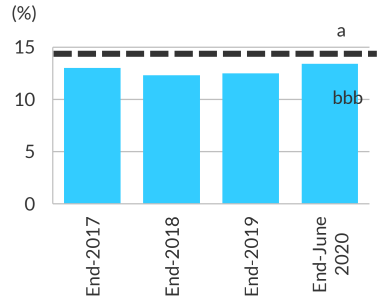

Source: Fitch Ratings, SCF

### Operating Profit/RWAs



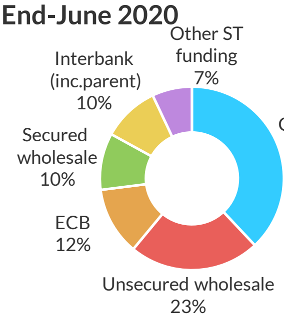

Source: Fitch Ratings, SCF

### CET1 Ratio




Source: Fitch Ratings, SCF

### Funding Structure at End-June 2020




Source: Fitch Ratings, SCF

## Environmental, Social and Governance Considerations

FitchRatings **Santander Consumer Finance, S.A.** Banks Ratings Navigator

### Credit-Relevant ESG Derivation

Santander Consumer Finance, S.A. has 5 ESG potential rating drivers

- Santander Consumer Finance, S.A. 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. | 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 | 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 | 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 | 3 | 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 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 highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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