

# Bank of Ireland Group Public Limited Company

## Key Rating Drivers

**Negative Outlook on Coronavirus Impact:** Bank of Ireland Group Public Limited Company's (BOIG) ratings are driven by a strong domestic retail and corporate banking franchise in the small Irish economy, adequate capitalisation and a stable funding profile. The ratings also factor in BOIG's average asset quality, affected by legacy non-performing loans (NPLs), and adequate profitability. Fitch Ratings expects both factors to deteriorate, together with the operating environment due to the health crisis. This impact drives the Negative Outlook.

**Asset Quality to Deteriorate:** Although asset quality continued to improve in 1Q20 with non-performing exposures (NPEs, as defined by the European Banking Authority) of 4.2%, we expect inflows of new problem loans to increase materially once the support measures, including payment breaks for both retail and corporate customers, are lifted. The bank benefits from more conservative underwriting metrics than in the 2008 crisis, but non-organic legacy loan disposals are jeopardised by the deterioration in market sentiment.

**Pressures on Profitability:** Underlying profitability is adequate, supported by an improving loan mix and diversified revenue streams, including from the domestic wealth and insurance business. But it is challenged by rising loan impairment charges (LICs), lower growth and transformation investments under the bank's strategic plan. Cost efficiency is weak compared to international peers. BOIG's UK subsidiary has provided a consistent source of revenue and loan diversification, but is also negatively affected by the crisis.

**Adequate Capitalisation; Funding Rating Strength:** Capitalisation has improved in recent years, driven by deleveraging, sound organic capital generation and lower pension volatility. We expect adequate capital buffers despite challenges to profitability. Funding is a strength due to the group's stable and granular deposits and proven access to wholesale markets. Liquidity is sound and largely in the form of cash and equivalents and high-quality liquid assets.

**Consolidated Assessment:** Fitch assesses BOIG on a consolidated basis. BOIG acts as the holding company and its Viability Rating (VR) is aligned with the VR of its wholly owned operating bank subsidiary, Bank of Ireland (BOI). The equalisation of the VRs reflects the absence of double leverage at holding company level and no material restrictions on the transfer of capital and liquidity across the group, subject to the operating company's meeting regulatory capital and liquidity requirements.

BOI's Long-Term Issuer Default Rating (IDR) of 'BBB+' is one notch above its VR, reflecting the protection for BOI's senior third-party obligations from funds ultimately raised by BOIG and downstreamed to BOI to protect BOI's external senior creditors in a group failure.

## Rating Sensitivities

**Crisis Resolution:** The ratings could come under pressure if it becomes less likely that the health crisis will be resolved globally in 2H20 delaying a recovery in global growth and causing more permanent damage to the bank's earnings, asset quality and capitalisation. The final terms of the agreement between the UK and the EU and their impact on the Irish and UK economies is an additional risk factor that could drive a negative rating action.

**Potential Upside on Execution:** If the group is able to withstand ratings pressure arising from the pandemic, its ratings could be upgraded. But BOIG would have to successfully execute its strategy to improve cost efficiency and profitability, and reduce the share of problem loans to levels more commensurate with higher-rated peers' while reducing capital encumbrance.

## Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F2

### Local Currency

Viability Rating	bbb
Support Rating	5
Support Rating Floor	NF

### Sovereign Risk

Long-Term Foreign-Currency IDR	A+
Long-Term Local-Currency IDR	A+
Country Ceiling	AAA

### Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Stable

## Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

## Related Research

- [Sovereign Data Comparator - Coronavirus Crisis Update - Early June 2020 \(June 2020\)](#)
- [Fitch Takes Actions on Large Irish Banking Groups on Coronavirus Uncertainties \(April 2020\)](#)
- [Fitch Removes Large Irish Banks and UK Subsidiaries from Under Criteria Observation \(March 2020\)](#)
- [Fitch Places Ratings of 67 Developed Market European Banking Groups Under Criteria Observation \(March 2020\)](#)
- [Fitch Affirms Bank of Ireland Group plc at 'BBB'; Outlook Stable \(October 2019\)](#)

## Analysts

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## Bank of Ireland

Rating level	Rating
Long-Term Issuer Default Rating	BBB+
Short-Term Issuer Default Rating	F2
Viability Rating	bbb
Support Rating	5
Support Rating Floor	NF
Outlook/Watch	Negative
Derivative Counterparty Rating	BBB+(dcr)

Source: Fitch Ratings

## Bank of Ireland (UK) Plc

Rating level	Rating
Long-Term Issuer Default Rating	BBB+
Short-Term Issuer Default Rating	F2
Viability Rating	bbb
Support Rating	2
Outlook/Watch	Negative
Derivative Counterparty Rating	BBB+(dcr)

Source: Fitch Ratings

The Long-Term IDR of the wholly owned subsidiary Bank of Ireland (UK) Plc (BOI UK) is rated one notch above the holding company's (BOIG) Long-Term IDR. This reflects the fact that senior third-party liabilities are expected to benefit from resolution funds ultimately raised by BOIG, and downstreamed BOI UK to protect the subsidiary's external senior creditors in a group failure. We expect the group will comply with the minimum requirement for own funds and eligible liabilities (MREL) targets.

BOI UK's VR reflects the bank's modest franchise in the UK, acceptable asset quality and profitability constrained by a narrow business model, and sound reported capital ratios. The Negative Outlook on the Long-Term IDR reflects medium-term downside risks to the ratings from the health crisis, with main pressure points being execution, asset quality and earnings.

BOI UK's profitability is already under pressure from low interest rates and stiff competition in the bank's main segment – mass-market residential mortgage lending. We see downside risks to the profitability from rising LICs, lower business volumes and lower interest rates. The bank's strategy to optimise returns and pursue niche segments of the mortgage market may prove harder to execute. Asset quality is also likely to deteriorate given an expected rise in unemployment as well as the bank's exposure to the SME and corporate sectors (8% of gross loans at end-2019).

BOI UK has headroom to emerge with its ratings intact, but this will depend on the ultimate depth and duration of the coronavirus shock to the UK economy. On 27 March 2020, Fitch downgraded the UK's Long-Term IDR to 'AA-' with a Negative Outlook. This was due to a significant weakening in the UK's public finances caused by the impact of the coronavirus outbreak and a fiscal-loosening stance instigated before the scale of the crisis became apparent. While this has not had a direct influence on Fitch's assessment of BOI UK's operating environment (aa-/negative), a downgrade of the UK sovereign rating will likely cause a downgrade of the UK operating environment to the 'a' category.

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**Bank of Ireland Group Public Limited Company – Debt Rating Classes**

Rating level	Rating
Tier 2 subordinated debt	BB+
Source: Fitch Ratings	

**Bank of Ireland – Debt Rating Classes**

Rating level	Rating
Short-term debt, including certificates of deposit	F2
Source: Fitch Ratings	

**Tier 2 Debt**

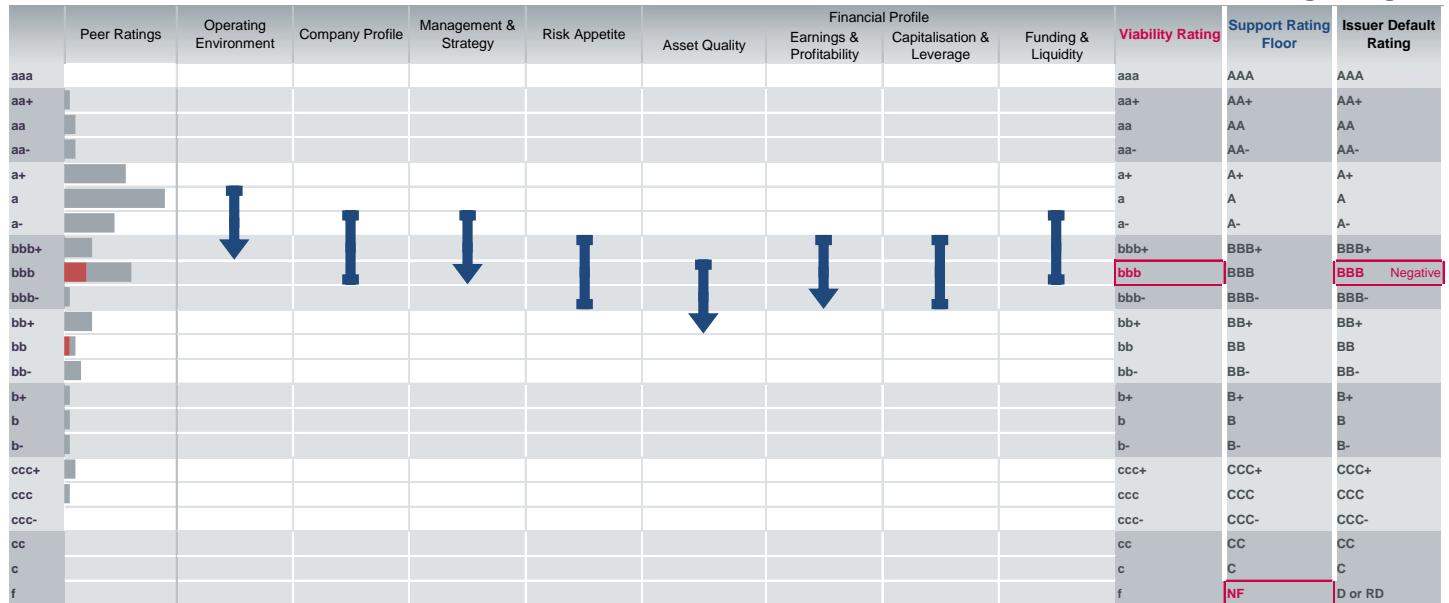
BOIG's subordinated Tier 2 debt is rated two notches below the VR for loss severity to reflect poor recovery prospects. No notching is applied for incremental non-performance risk as the write-down of the notes will only occur after the point of non-viability is reached and there is no prior coupon flexibility.

Ratings Navigator

Bank of Ireland Group Public Limited Company

ESG Relevance:

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Significant Changes

Operating Environment

Our assessment for BOIG's operating environment reflects the group's material operations outside Ireland in the UK. The trend on our assessments of the operating environments for Irish domestic banks and for UK banks is now negative to reflect the likely fallout from the health crisis in both countries. Fitch forecasts Irish real GDP to contract by 9.6% in 2020 and to subsequently recover by 5.8% in 2021. The Irish economy grew by 5.5% in 2019 and by an average of 8.8% during 2013-2018. Unemployment is forecast to rise to double digit levels by the central bank up from 5% in 2019.

In May Ireland gradually started reopening its businesses, but the impact on the operating environment will depend on how well the process is managed and possible subsequent outbreaks are contained.

We expect asset quality to weaken at Irish banks relative to our previous expectations, and earnings challenges to intensify due to weaker business volumes and rising LICs. Support packages from the government could mitigate asset quality pressure depending on the amount and on the form such support takes. In May 2020, the outgoing government approved a EUR6.5 billion package (2% of GDP) to support Irish businesses, although some of the more significant measures in the package may have to await the formation of a new government.

The Irish banks should be reasonably isolated from the risk of higher wholesale funding costs because of their large customer deposit bases, and also because they have already funded a sizeable portion of their MREL. The risks to their funding profiles are longer-term (e.g. term debt refinancing and market issuance) rather than near-term, although BOIG's recent AT1 issuance alleviated some of the concerns as the group took advantage of favourable market sentiment.

As a small and open economy, the recovery of the Irish economy is also dependent on how quickly its main trading partners' economies rebound. Considerable uncertainty remains around the post-Brexit relationship between the EU and the UK and this represents an additional risk factor.

**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

## Pressure on Strategy Execution, Asset Quality and Earnings

Fitch revised BOIG's Outlook to Negative from Stable in April 2020 following the coronavirus outbreak and the subsequent economic and social lockdown, while affirming the bank's Long-Term IDR at 'BBB' and Viability Rating at 'bbb'.

We believe that executing BOIG's strategy, which foresees significant loan book growth in Ireland together with material improvements in cost efficiency, will be difficult given the current disruption to the economy. We therefore have revised the trend on Management and Strategy to negative.

We have also revised the trend on BOIG's asset-quality score to negative as we anticipate that the current economic environment will lead to higher asset non-performance than in our previous expectations. Most at risk are exposures to commercial and SME clients active in vulnerable sectors, including hospitality and wholesale/retail, which the bank estimates at EUR4 billion.

The exposure to other higher-impact sectors is low, with aviation exposure amounting to EUR0.2 billion and there is no material exposure to oil and gas. However the impact on asset quality is expected by Fitch to be much broader given the broad economic implications of the health crisis. The performance of personal loans is currently supported by emergency income support schemes introduced by the government. But we expect asset quality in this segment to deteriorate once the support schemes are wound down.

After years of deleveraging, the group announced its 2018-2021 strategic plan in June 2018, which incorporated strong Irish mortgage growth, increased lending to underserved segments of the UK mortgage market, and growth in corporate lending in both countries. Given the health crisis and its impact on the economy, the loan book growth targets are unlikely to be met until well after 2021. The new lending this year is expected by the bank to be 30%-50% lower than in 2019.

Transforming the bank, another pillar of the strategic plan, which includes substantial investment in systems and business model simplifications, may also take longer to accomplish given the need to control spending. We have revised the trend on management and strategy to negative to reflect the challenges the bank is facing in executing its strategy in the new environment.

We have also revised the trend on earnings and profitability to negative. This is because, although the bank remains committed to reducing its cost base to EUR1.65 billion in 2021, its profitability will be negatively affected by the substantial loan impairment charges and lower business volumes resulting from the coronavirus crisis. Lower interest rates are negatively affecting interest income and fee income is suffering from much-reduced customer activity.

## Navigator Peer Comparison

### Peer Group Summary

Peer Group Summary	Operating Environment		Company Profile		Management & Strategy		Risk Appetite		Asset Quality		Earnings & Profitability		Capitalisation & Leverage		Funding & Liquidity		Viability Rating
Bank of Ireland Group Public Limited Company	a-	▼	bbb+	■	bbb+	▼	bbb	■	bbb-	▼	bbb	▼	bbb	■	bbb+	■	bbb
AIB Group Public Limited Company	bbb+	▼	bbb	■	bbb+	▼	bbb	■	bb+	▼	bbb	▼	bbb	■	bbb+	■	bbb
Bank of Ireland (UK) Plc	aa-	▼	bbb-	■	bbb	▼	bbb	■	bbb+	▼	bbb	▼	bbb	■	bbb	■	bbb
Ulster Bank Ireland Designated Activity Company	bbb+	▼	bb+	■	bb+	■	bbb-	■	bb-	▼	bb-	▼	bbb	■	bbb	■	bb

Source: Fitch Ratings

## Summary of Latest Developments

### Declining Legacy NPLs; Diversified Loan Book

BOIG's asset quality continued to improve in 2019 and 1Q20, with the Stage 3 ratio decreasing to 3.7%. The bank has been actively reducing its stock of legacy NPLs (largely Irish residential mortgages) through sales and securitisations as well as general work-outs. While further legacy NPL reductions are targeted, the pace of resolution is likely to slow. Of the performing loans, 5% were to the sectors most affected by the health crisis at end-1Q20 (wholesale/retail, EUR2.6 billion, and hospitality EUR1.8 billion). The bank had not experienced any direct losses related to the COVID-19 outbreak until end-1Q20. But it booked an IFRS 9 charge of EUR250 million in 1Q20, reflecting the weaker macroeconomic outlook, with further charges possible as macroeconomic scenarios are updated.

We expect risk costs in the coming quarters to remain high, reflecting actual loan losses and loan migration from Stage 1 to Stage 2. Negative stage migration is likely, especially when government support measures are unwound. BOIG has agreed payment breaks on ca. EUR4.8 billion of loans in Ireland and on ca. EUR3.6 billion of its exposure in the UK, corresponding to approximately 10% of its gross loans. The highest proportion of payment breaks is in the Irish SME portfolio (26% of the total), which we consider the most vulnerable in this crisis given the weak cash reserves, limited adaptation capabilities, and contingent arrangements compared to larger firms.

Mortgage payment breaks in Ireland and the UK are in line with the market. The average LTV of the Irish mortgage book was 59% at end-1Q20. In the UK it was slightly higher at 63% as appetite for higher LTV lending is above-average compared to peers. The property and construction loan book is dominated by investment property, roughly equally split into retail, office and residential /other. Three-quarters of the book has LTVs below 70%, providing the bank with a cushion in the event of falling collateral prices.

### Adequate Underlying Profitability; Several Challenges

BOIG's profitability faces several headwinds, including much higher credit charges (versus allowance releases in recent years), significantly lower business volumes in 2020 and only a gradual pick-up in activity in 2021 and low interest rates. Heavy investment spending under the bank's strategic plan represents additional strain. Interest margins were compressed slightly in 2019, mostly due to competitive pressure in the UK and lower yields on liquid assets, but remained supported by a strong Irish retail franchise. Margin compression will continue given the lower-for-longer interest rate environment and increasing deposit inflows. The bank reported a EUR241 million loss in 1Q20, driven by risk costs of EUR266 million and a valuation loss of EUR155 million primarily from market volatility in its Wealth and Insurance business.

Cost efficiency lags behind international peers. Although the bank continues to optimise its product mix and reduce costs, the health crisis is likely to push gradual improvement further out. The weaker cost efficiency of UK operations is the result of a business model relying on third-party partnerships and BOI UK's "challenger" positioning. The recession is likely to slow down the planned UK market repositioning.

### Adequate Capitalisation and Strong Funding

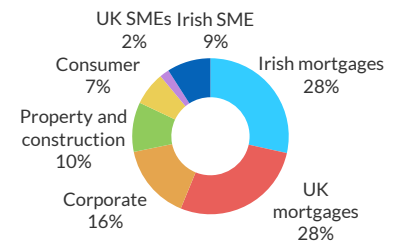
Our assessment of capitalisation takes into account adequate capital and leverage ratios and moderate vulnerability to unreserved impaired loans (24% of CET1 capital at end-2019).

BOIG's fully loaded common equity Tier 1 (CET1) ratio decreased to 13.5% at end-1Q20 due to the loss for the quarter and higher risk-weighted assets (RWAs), with a transitional ratio of 14.4%. The regulatory 2020 CET1 requirement came down to 9.27% from 11.45% as a result of regulatory changes, implying headroom of around 510bp above its minimum distributable amount threshold. The bank forecasts its fully-loaded CET1 ratio will stay above 11.45% at all times under a range of scenarios. Recently resumed dividend payments have been put on hold. RWA inflation from credit deterioration will be counterbalanced by credit RWA reductions in line with lower growth expectations as guided by the bank.

BOIG's funding profile is supported by strong access to retail deposits, funding the bulk of the balance sheet, and an established and sufficiently diversified wholesale funding franchise. Regulatory liquidity metrics at end-1Q20 were strong (140% LCR, 131% NSFR).

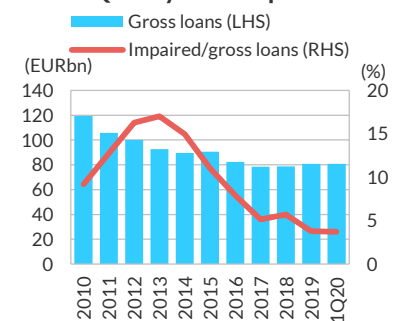
### Gross Loans (EUR80.8bn)

End-1Q20



Source: Fitch Ratings, BOIG

### Asset Quality Development

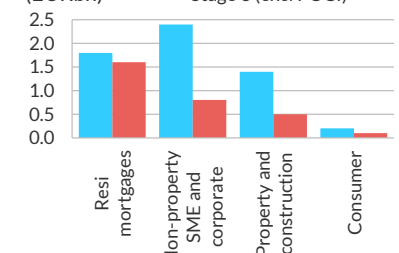


Source: Fitch Ratings, BOIG

### Stage 2 and 3 Loans

End-1Q20

(EURbn)

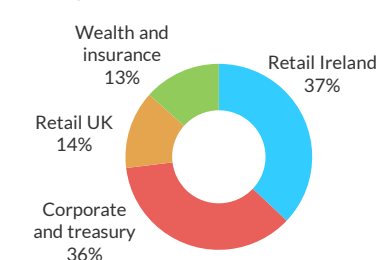


POCI: EUR0.1bn

Source: Fitch Ratings, BOIG

### Divisional Profit Before Tax

End-2019



Excluding group centre

Source: Fitch Ratings, BOIG

## Summary Financials and Key Ratios

	31 Dec 19		31 Dec 18	31 Dec 17
	Year end (USDm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
<b>Summary income statement</b>				
Net interest and dividend income	2,422	2,156.0	2,136.0	2,172.0
Net fees and commissions	343	305.0	297.0	326.0
Other operating income	548	488.0	400.0	502.0
Total operating income	3,313	2,949.0	2,833.0	3,000.0
Operating costs	2,254	2,006.0	1,945.0	2,010.0
Pre-impairment operating profit	1,123	1,000.0	888.0	990.0
Loan and other impairment charges	240	214.0	-42.0	15.0
Operating profit	883	786.0	930.0	975.0
Other non-operating items (net)	-94	-84.0	-95.0	-123.0
Tax	221	197.0	160.0	160.0
Net income	503	448.0	675.0	692.0
Other comprehensive income	197	175.0	-19.0	-369.0
Fitch comprehensive income	700	623.0	656.0	323.0
<b>Summary balance sheet</b>				
<b>Assets</b>				
Gross loans	90,766	80,795.0	78,693.0	78,487.0
- Of which impaired	3,481	3,099.0	4,483.0	4,043.0
Loan loss allowances	1,469	1,308.0	1,728.0	2,359.0
Net loans	89,296	79,487.0	76,965.0	76,128.0
Interbank	3,739	3,328.0	2,625.0	2,861.0
Derivatives	2,246	1,999.0	1,724.0	2,348.0
Other securities and earning assets	38,941	34,663.0	32,812.0	30,285.0
Total earning assets	134,221	119,477.0	114,126.0	111,622.0
Cash and due from banks	9,352	8,325.0	6,033.0	7,379.0
Other assets	4,585	4,081.0	3,510.0	3,553.0
Total assets	148,158	131,883.0	123,669.0	122,554.0
<b>Liabilities</b>				
Customer deposits	94,291	83,933.0	78,832.0	75,778.0
Interbank and other short-term funding	2,487	2,214.0	2,549.0	4,430.0
Other long-term funding	11,652	10,372.0	10,887.0	10,375.0
Trading liabilities and derivatives	2,784	2,478.0	1,835.0	1,987.0
Total funding	111,214	98,997.0	94,103.0	92,570.0
Other liabilities	25,081	22,326.0	19,394.0	20,195.0
Preference shares and hybrid capital	143	127.0	121.0	122.0
Total equity	11,720	10,433.0	10,051.0	9,667.0
Total liabilities and equity	148,158	131,883.0	123,669.0	122,554.0
Exchange rate		USD1 = EUR0.89015	USD1 = EUR0.873057	USD1 = EUR0.83382

## Summary Financials and Key Ratios

	31 Dec 19	31 Dec 18	31 Dec 17
<b>Ratios (annualised as appropriate)</b>			
<b>Profitability</b>			
Operating profit/risk-weighted assets	1.6	2.0	2.2
Net interest income/average earning assets	1.8	1.9	n.a.
Non-interest expense/gross revenue	67.0	69.7	68.0
Net Income/average equity	4.4	6.8	n.a.
<b>Asset quality</b>			
Impaired loans ratio	3.8	5.7	5.2
Growth in gross loans	2.7	0.3	n.a.
Loan loss allowances/impaird loans	42.2	38.6	58.4
Loan impairment charges/average gross loans	0.3	-0.1	n.a.
<b>Capitalisation</b>			
Common equity Tier 1 ratio	15.0	15.0	15.8
Fully loaded common equity Tier 1 ratio	13.8	13.4	13.8
Fitch Core Capital ratio	16.1	16.1	16.0
Tangible common equity/tangible assets	6.6	6.6	6.3
Basel leverage ratio	7.1	7.0	7.0
Net impaired loans/common equity Tier 1	23.8	38.5	23.7
Net impaired loans/Fitch Core Capital	23.0	37.1	24.3
<b>Funding and liquidity</b>			
Loans/customer deposits	96.3	99.8	103.6
Liquidity coverage ratio	138.0	136.0	136.0
Customer deposits/funding	86.9	85.3	83.5
Net stable funding ratio	131.0	130.0	127.0

Source: Fitch Ratings, Fitch Solutions, Bank of Ireland Group Public Limited Company



## No Sovereign Support Factored into Ratings

We believe that BOIG's and BOI's senior creditors cannot rely on extraordinary support from the Irish authorities in the event that the bank becomes non-viable. In our opinion, the EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism provide a framework that is likely to require senior creditors to participate in losses for resolving the bank.

Support Rating Floor		Value		
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)		A or A-		
Actual country D-SIB SRF		NF		
<b>Support Rating Floor:</b>		<b>NF</b>		
Support Factors	Positive	Neutral	Negative	
<b>Sovereign ability to support system</b>				
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)		✓		
<b>Sovereign propensity to support system</b>				
Resolution legislation with senior debt bail-in			✓	
Track record of banking sector support		✓		
Government statements of support			✓	
<b>Sovereign propensity to support bank</b>				
Systemic importance		✓		
Liability structure of bank		✓		
Ownership		✓		
Specifics of bank failure		✓		
<b>Policy banks</b>				
Policy role				
Funding guarantees and legal status				
Government ownership				

## Environmental, Social and Governance Considerations

The highest level of ESG credit relevance for BOIG 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.

### FitchRatings Bank of Ireland Group Public Limited Company

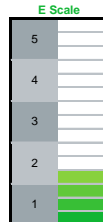
Banks  
Ratings Navigator

#### Credit-Relevant ESG Derivation

			Overall ESG Scale			
Bank of Ireland Group Public Limited Company has 5 ESG potential rating drivers						
➔	Bank of Ireland Group Public Limited Company 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.	key driver	0	issues	5	
➔	Governance is minimally relevant to the rating and is not currently a driver.	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
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



#### How to Read This Page

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

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

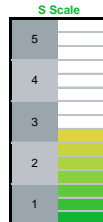
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far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

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

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

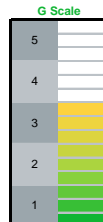
#### Social (S)

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	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



#### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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
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



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.

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