FitchRatings

Banks
Retail & Consumer Banks
United Kingdom

The Co-operative Bank p.l.c.

Key Rating Drivers

Rating Uplift to Opco: The Co-operative Bank's Long-Term Issuer Default Rating (IDR) is one notch above its Viability Rating (VR) because resolution funds issued by The Co-operative Bank Holdings plc, the bank's ultimate holding company, afford additional protection to the bank's external senior creditors, in case of its failure.

Business Profile Drives VR: The VR is two notches below the 'bbb-' implied VR because the bank's business profile, which continues to be subject to strategic execution risk and competitive pressures, has a strong impact on our assessment.

Transformation Progress Supports Business Model: The Co-operative Bank's limited scale, low market shares and lack of diversification weigh on its business model, notwithstanding its ethical focus that supports its franchise. Progress in upgrading the bank's savings and mortgage platforms in 2023 should further improve cost efficiency from 2024.

The bank entered exclusive merger talks with Coventry Building Society (Coventry; A-/ Stable) in December 2023. The talks are in their early stages. The impact of a merger on The Co-operative Bank's ratings would depend on the structure of the deal and the resulting impact on the bank's business profile, financial metrics and any support available from a new owner.

Mortgage Loans Underpin Risks: The Co-operative Bank primarily underwrites low-risk owner-occupied and buy-to-let residential mortgages, with a small share of unsecured retail and higher loan-to-value (LTV) lending. We expect muted mortgage lending growth in 2024, due to a subdued housing market and high interest rates. The average mortgage LTV in the portfolio has increased slightly to 55% at end-3Q23 (end-2022: 54%), but remains low and provides a buffer against moderate house price falls.

Resilient Asset Quality: The Co-operative Bank's impaired loan ratio of 0.7% at end-3Q23 (or 0.4% when excluding purchased originated credit-impaired (POCI) loans) reflects its robust asset quality. We expect the ratio (including POCI loans) to rise to about 1% by end-2025, mainly due to high interest rates and affordability pressures. Low-risk mortgage loans and conservative underwriting standards should support asset quality.

Continued Improvements in Profitability: The Co-operative Bank's operating profit/risk-weighted assets (RWAs) ratio of 2.5% in 1H23 (2022: 2.8%) is far stronger than its four-year average (-0.2%), reflecting the bank's turnaround from a period of losses. We forecast operating profit to moderate in 2024, due to a contracting loan book and rising loan impairment charges, before it recovers in 2025 as investment benefits feed through and as impairments normalise. Structural hedge income should help mitigate rising funding costs.

Stronger Capital Position: The Co-operative Bank's common equity Tier 1 ratio of 20.1% at end-September 2023 reflects mortgage loans' low risk-weights (RWA density: 18% at end-1H23) under the bank's internal ratings-based approach. Its UK leverage ratio increased slightly to 4.2% at end-September 2023 (end-2022: 4%), creating additional capacity for the bank to gradually expand its balance sheet.

Stable Retail Funding: The bank is mainly retail deposit-funded, with 78% of non-equity funding sourced through a fairly resilient core deposit base at end-3Q23. Access to wholesale markets has improved, and funding largely consists of MREL-eligible debt, Tier 2 debt and the Bank of England's Term Funding Scheme with additional incentives for SMEs. Liquidity is healthy, with a liquidity coverage ratio of 222% at end-3Q23.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb
Government Support Rating	ns
Sovereign Risk (United Kingdom)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Positive
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Fitch Upgrades The Co-operative Bank p.l.c. to 'BB+'; Outlook Positive (January 2024)

Fitch Affirms United Kingdom at 'AA-'; Outlook Negative (December 2023)

Western European Banks Outlook 2024 (December 2023)

DM100 Banks Tracker (December 2023)

Execution, Capital Key to Potential Coventry Acquisition of Co-operative Bank (February 2023)

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Rating Sensitivities

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

The Outlook on the Long-Term IDR could be revised to Stable if the bank's business profile and profitability do not improve as expected, for example due to competitive pressure on revenues or delays to improving cost efficiency.

The ratings could be downgraded from materially weaker profitability or faster-than-planned growth that erode capital buffers, with no clear actions to swiftly restore them. Weak strategic execution driven by intense competition could put the VR under pressure.

The Long-Term IDR is also sensitive to the bank's ability to meet its end-state resolution buffer requirements, which include qualifying junior debt and internal subordinated debt. The Long-Term IDR could also be downgraded to the same level as the VR if the bank is no longer required or able to meet end-state minimum requirements for own funds and eligible liabilities (MREL) regulatory requirements.

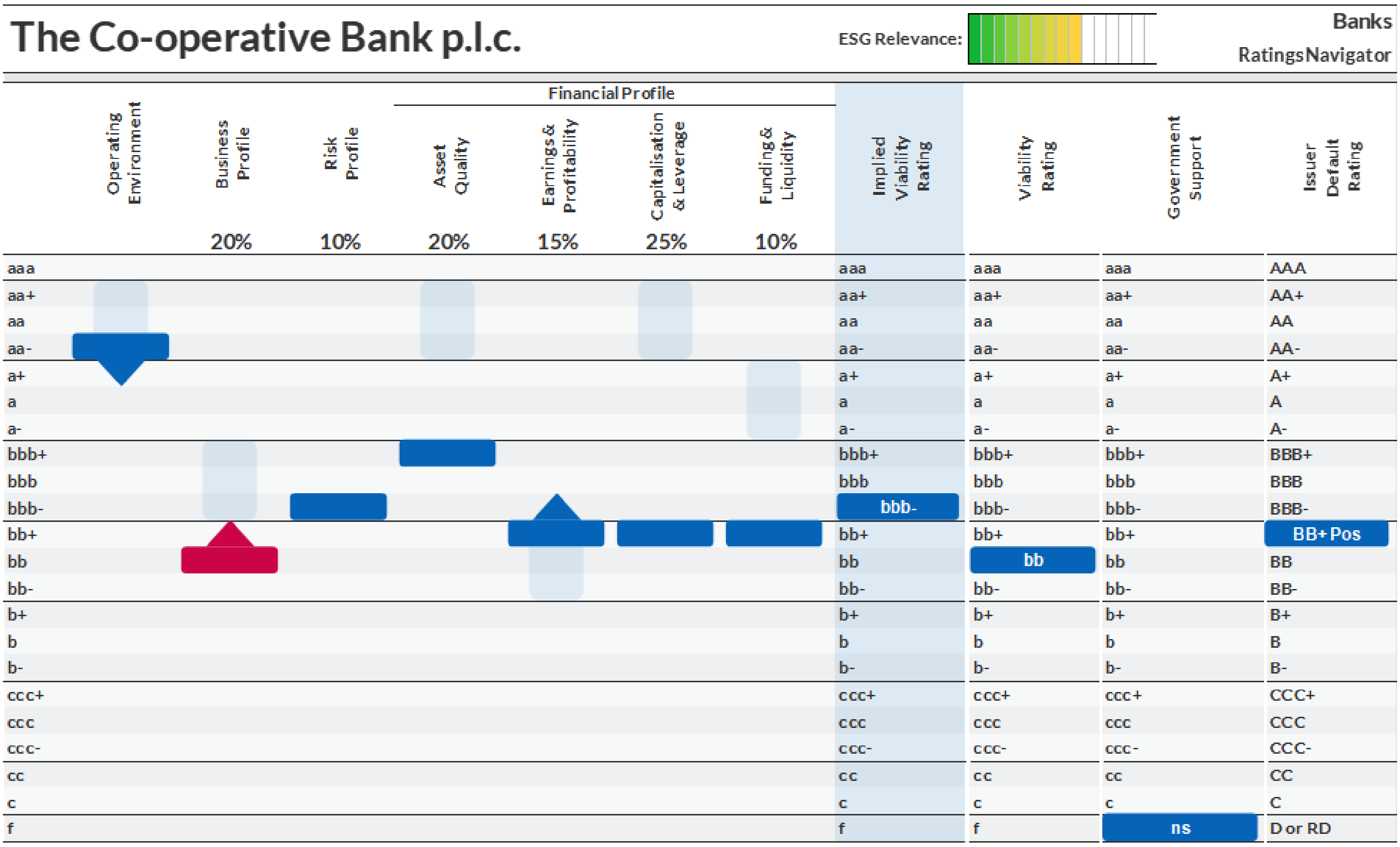
Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

We are likely to upgrade the ratings if the bank's business profile improves further, demonstrated by continued successful strategic execution and improving structural profitability. An upgrade would also require the bank maintaining sufficient capital buffers above their regulatory minimum capital requirements.

Other Debt and Issuer Ratings

The bank's Short-Term IDR of 'B' is the only available option for a Long-Term IDR of 'BB+' under Fitch's rating criteria.

Ratings Navigator



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.

VR - Adjustments to Key Rating Drivers

The VR of 'bb' is below the 'bbb-' implied VR due to the following adjustment reason: business profile (negative).

The operating environment score of 'aa-' is in line with the 'aa' category implied score. Sovereign rating was identified as a relevant negative factor in the assessment.

The business profile score of 'bb' is below the 'bbb' category implied score due to the following adjustment reasons: business model (negative), market position (negative).

The asset quality score of 'bbb+' is below the 'aa' category implied score due to the following adjustment reason: concentrations (negative).

The capitalisation and leverage score of 'bb+' is below the 'aa' category implied score due to the following adjustment reason: leverage and risk-weight calculation (negative).

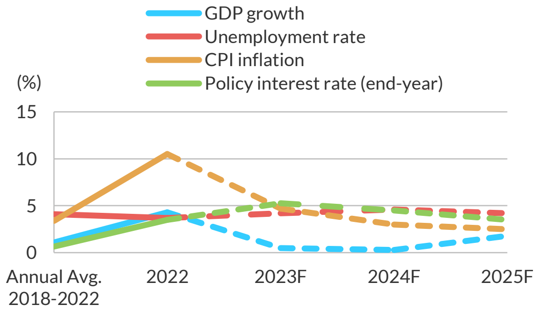
The funding and liquidity score of 'bb+' is below the 'a' category implied score due to the following adjustment reason: non-deposit funding (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Fitch projects UK GDP growth of 0.5% in 2023, and that a mild recession in 4Q23-2Q24 will pull down annual growth to 0.3% in 2024, before recovering to 1.8% in 2025. Annual inflation has eased, reflecting lower energy and food prices, but core inflation remains relatively high, signalling strong domestic demand pressures and a tight labour market. The Bank of England maintained its main policy rate at 5.25% in February and we expect the monetary authority to keep the rate at this level until at least 3Q24, given the high growth in wages due to strong underlying inflationary pressures.

Tough Economic Backdrop



Source: Fitch Ratings

Business Profile

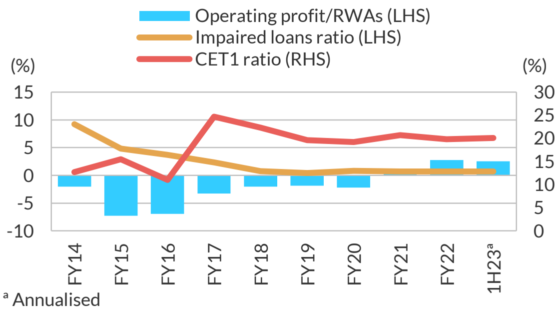
The bank splits its business into three segments; retail, SME, and legacy and central, with the latter including closed books of corporate, unsecured and residential lending in run off, as well as treasury and central functions. The Co-operative Bank has continued to make progress in its turnaround since returning to profitability in 2021 and becoming fully compliant with capital buffers in 3Q22. The mortgage and savings transformation programmes are approaching completion, with Capita colleagues having been onboarded and mortgage and savings accounts due to be fully migrated to the new systems by 2024.

The bank has entered exclusive discussions with Coventry. A potential acquisition by Coventry could provide upside to the rating with increased scale and cost synergies, as well as potential support from a higher rated owner, but discussions are in the early stages and a transaction could involve significant execution risk.

We believe uncertainty remains in the banks' ability to execute on its strategic goals to increase its scale and diversify its earnings in a subdued and intensely competitive UK mortgage market. In 3Q23, The Co-operative Bank acquired Sainsbury's Bank's mortgage portfolio, which comprised about GBP0.5 billion of balances and represented about 3% of the Co-operatives Bank's loan book at acquisition. This acquisition of a mortgage portfolio is the first in more than a decade and highlights the progress the bank has made in its turnaround. However, the bank's market share in UK mortgage lending remains modest at 1.2% at end-2022.

Operating expenses had been reduced in recent years following branch closures and staff reductions, but have recently risen due to an acceleration of strategic investments in digitalisation. The bank has a high cost-to-income ratio which is above peers, and we believe delivering further cost efficiencies from its investments is critical to ensuring sound structural profitability through the cycle.

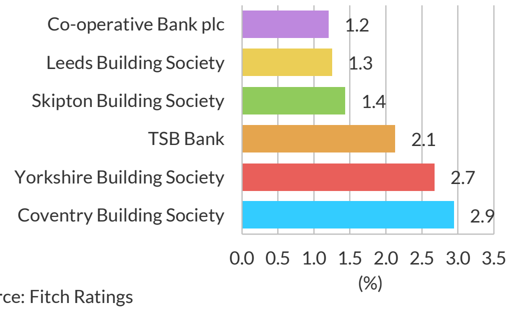
Performance Through the Cycle



ª Annualised
Source: Fitch Ratings, Fitch Solutions, Co-op Bank

Mortgage Lending Market Share

% mortgages outstanding, end-2022



Source: Fitch Ratings

Risk Profile

The bank has a conservative risk appetite with underwriting standards broadly in line with peers. Mortgage applicant quality is monitored closely, defined in terms of creditworthiness, LTV and loan/income (LTI) ratios and affordability profile.

The majority of the mortgage lending is prime residential mortgages (93% at end-3Q23) with a low average LTV of 56% at end-3Q23 and a modest 2.4% of loans having an LTV above 90% at end-1H23. Buy-to-let (BTL) mortgages accounted for 7% of loans at end-3Q23, are largely interest only and have an average LTV of 49%. Of the interest only loans, about 86% of balances had an LTV of less than 60% at end-1H23 (58% have an LTV of less than 50%). Risks to areas where real estate prices are more vulnerable to corrections, such as London and the south-east of England (32% of the mortgage book at end-1H23), are controlled by keeping LTVs lower than average. In its BTL book, The Co-operative Bank targets quasi-professional landlords, and does not lend to portfolio landlords (more than 3 properties).

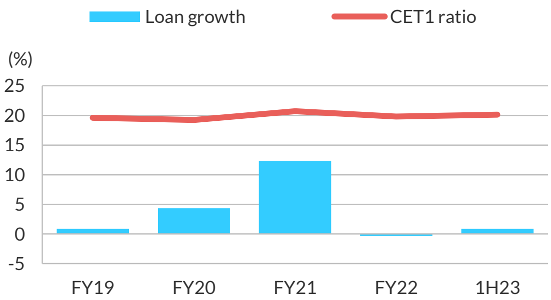
The bank has reduced its unsecured retail lending (credit cards and agreed overdrafts), whilst unsecured personal loans have not been offered since 2018. Credit cards were only given to existing customers, but the bank has extended its card offering. In 1H23, the bank initiated an unsecured cost of living task force set up to review customer management processes and arrears strategies due to the cost of living crisis. The banks identified customers "at risk" with the aim of supporting customers and reflects the proactive approach of management to potential vulnerabilities in the portfolio.

SME lending is modest (2% of gross loans at end-3Q23) and the majority of loans are secured or government guaranteed loans (CBILs and Bounce-Back loans).

The bank intends to expand its mortgage and secured SME lending product offerings as part of its strategy to further increase profitability in the medium term. Fitch views SME lending as higher risk than mortgage lending. However, we expect growth in this area to be gradual as the bank needs to develop its capability and is likely to take a cautious approach in a challenging UK economic environment.

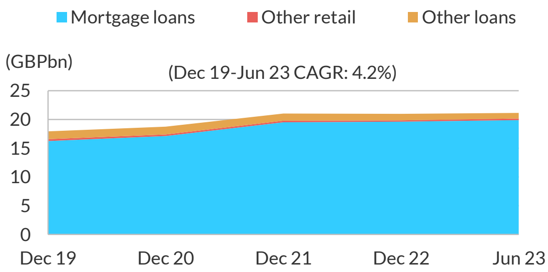
Market risk is mainly comprised of interest rate risk and is managed by a clear market risk framework. The bank set up a structural hedge in 2022 which should provide a smoother income profile and mitigates interest rate movements.

Loan Growth



Source: Fitch Ratings, Fitch Solutions, Co-op Bank

Loan Book Breakdown



CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, Co-op Bank

Financial Profile

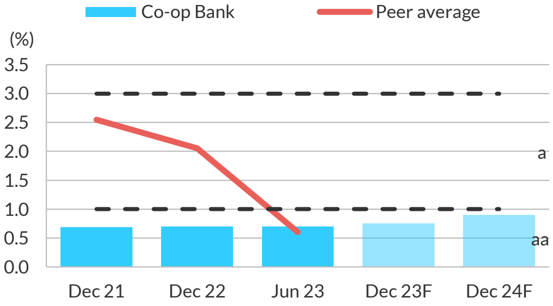
Asset Quality

Credit risk primarily arises from retail lending (GBP19.9 billion), which formed 94% of gross loans at end-1H23 and is primarily in low risk, low LTV mortgages. The share of mortgage loans in arrears for over three months have remained relatively stable at 0.2% at end-3Q23 (end-2022: 0.1%). The Stage 2 loans ratio decreased to 14.8% at end-3Q23, from 16.2% at end-2022, and post model adjustments have reduced due to a reassessment of affordability pressures on mortgage loans. Stage 3 coverage of impaired loans, including POCI loans, was a modest 27% at end-3Q23 reflecting the largely secured nature of the loan book.

Legacy loans (largely private finance initiative and housing association loans) formed 3% of gross loans at end-3Q23 and the risk from these loans continues to reduce as the book is well seasoned and continues to amortise, although 2% of legacy loans were classified as Stage 3, with a further 1% as POCI at end-3Q23.

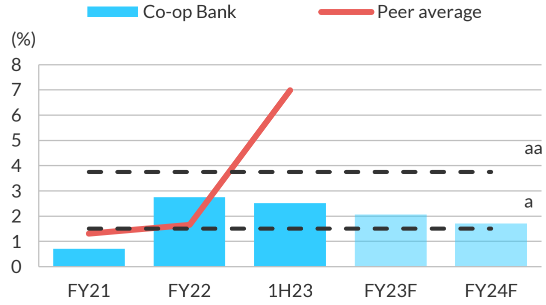
Non-loan assets at end-3Q23 mainly consisted of cash (GBP3.9 billion), an investment securities portfolio (GBP1.5 billion) and a net retirement benefit asset. The investment securities portfolio mainly comprised highly rated government and public-sector bonds, and residential mortgage-backed securities.

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 Co-operative Bank continued to extend its track record of structural profitability in 9M23, benefitting from the high interest rate environment and modest LICs and despite a higher cost base as it accelerated its investment spend.

We believe profitability peaked in 2022 and expect a decline in FY23 and FY24 as loan growth remains subdued in a competitive mortgage market and costs decline gradually as the benefits of the simplification programme are realised. We also expect net interest margins to remain relatively robust due to the benefits of the structural hedging programme. The mortgage book is of high quality and we therefore expect only modest increases in LICs over the next two years.

The bank's cost-to-income ratio declined to 77% in 1H23 (125% in FY20), but is still high compared to peers. Operating costs increased by 18% in the period reflecting strategic investments in the mortgage and savings transformation programme and completion of key projects such as Capita mortgage insourcing. The mortgage platform integration is now expected to be completed in 2024 and the savings platform has already launched and facilitated the launch of new savings products.

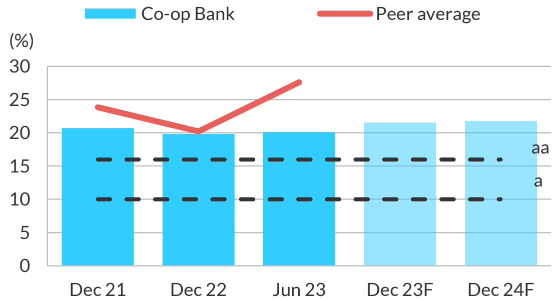
Capital and Leverage

The Co-operative Bank's CET1 ratio increased to 20.1% at end-3Q23 (19.8% at end-2022) and remains above the regulatory minimum of 14.3%. We expect continued structural profitability and moderate loan growth to continue to support the capital position. RWAs increased slightly to GBP4.9 billion at end-3Q23 (FY 22: GBP4.8bn) primarily due to the acquisition of Sainsbury's bank's mortgage book.

The bank's total capital ratio was 24.3% at end-3Q23, which included GBP203 million of Tier 2 debt. Its leverage ratio (calculated as per the PRA definition) of 4.2% at end-3Q23 is above requirements of 3.25% but below peers. The bank's ability to issue additional Tier 1 instruments to optimise its capital stack and increase leverage buffers is yet to be tested.

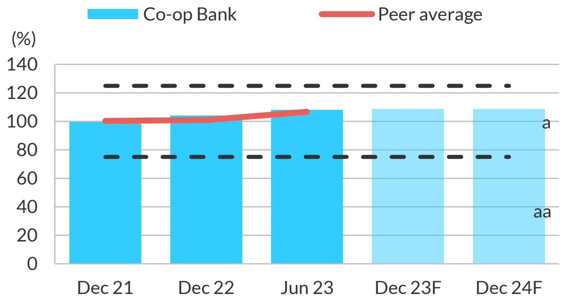
The bank meets MREL requirements of GBP1.5 billion with a surplus of £356m at end-3Q23, supported by a GBP200 million senior MREL qualifying issuance in May 2023.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

The bank is primarily funded by deposits (78% of non-equity funding at end-3Q23), most of which are retail and which have proved to be stable, but also some SME deposits. TFSME usage was high at GBP5.2 billion at FY22 and the bank has started to make early repayments, with GBP4.5 billion (19% of total funding) outstanding at end-September 2023 due to be refinanced by November 2025. The bank has refinanced initial TFSME repayments with deposits, and we expect future repayments to be supplemented by wholesale funding transactions as industry wide TFSME refinancing puts pressure on deposit costs.

Asset encumbrance is at the higher end of its peers and was 29.3% at end-3Q23. Total high-quality liquid assets (HQLAs) of GBP4.9 billion represent about 20% of total assets which reflects sound liquidity. The liquidity coverage ratio has decreased to 222% at end-3Q23 and we expect the ratio to continue to fall as the bank repays TFSME, but to remain well above requirements.

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 our Bank Rating Criteria. They are based on a combination of Fitch's macroeconomic 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 'aa' category. Light-blue columns represent Fitch's forecasts.

Peer average includes Coventry (VR: a-), Metro Bank PLC (b), Principality Building Society (bbb+), Banca Monte dei Paschi di Siena S.p.A. (bb). Latest average uses 9M23 data for Banca Monte dei Paschi di Siena S.p.A.

Financials

Summary Financials

	30 June 2023		31 December 2022	31 December 2021	31 December 2020
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(GBPm)	(GBPm)	(GBPm)	(GBPm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	310	245.1	458.3	323.9	266.9
Net fees and commissions	24	18.8	31.8	25.2	23.5
Other operating income	5	4.0	21.6	29.2	24.9
Total operating income	339	267.9	511.7	378.3	315.3
Operating costs	260	205.8	372.7	346.1	395.4
Pre-impairment operating profit	79	62.1	139.0	32.2	-80.1
Loan and other impairment charges	0	0.3	6.4	1.1	21.6
Operating profit	78	61.8	132.6	31.1	-101.7
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	-2.0
Tax	-52	-41.4	110.5	-166.2	-8.0
Net income	131	103.2	22.1	197.3	-95.7
Other comprehensive income	-1	-0.8	-475.0	80.2	-41.8
Fitch comprehensive income	130	102.4	-452.9	277.5	-137.5
Summary balance sheet					
Assets					
Gross loans	26,742	21,145.2	20,962.2	21,039.5	18,725.4
- Of which impaired	187	147.9	147.3	144.7	156.6
Loan loss allowances	49	38.8	40.3	37.4	42.9
Net loans	26,693	21,106.4	20,921.9	21,002.1	18,682.5
Interbank	587	463.9	387.1	191.5	536.2
Derivatives	153	121.0	89.4	158.0	324.0
Other securities and earning assets	1,888	1,492.8	955.9	1,226.1	1,172.5
Total earning assets	29,321	23,184.1	22,354.3	22,577.7	20,715.2
Cash and due from banks	4,938	3,904.8	5,270.4	5,696.9	3,877.8
Other assets	717	566.6	508.1	1,048.7	1,006.5
Total assets	34,976	27,655.5	28,132.8	29,323.3	25,599.5
Liabilities					
Customer deposits	24,727	19,551.4	20,107.4	21,135.9	20,365.8
Interbank and other short-term funding	763	603.3	483.4	327.6	2,066.4
Other long-term funding	7,490	5,922.4	6,028.8	5,805.4	1,137.0
Trading liabilities and derivatives	56	44.2	68.9	140.7	340.1
Total funding and derivatives	33,036	26,121.3	26,688.5	27,409.6	23,909.3
Other liabilities	168	132.8	145.3	161.8	215.8
Total equity	1,772	1,401.4	1,299.0	1,751.9	1,474.4
Total liabilities and equity	34,976	27,655.5	28,132.8	29,323.3	25,599.5
Exchange rate		USD1 = GBP0.790701	USD1 = GBP0.828638	USD1 = GBP0.74438	USD1 = GBP0.745156

Source: Fitch Ratings, Co-op Bank

Key Ratios

	30 June 2023	31 December 2022	31 December 2021	31 December 2020
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.5	2.8	0.7	-2.2
Net interest income/average earning assets	2.2	2.0	1.5	1.3
Non-interest expense/gross revenue	76.8	72.8	91.5	125.4
Net income/average equity	15.4	1.4	12.2	-6.1
Asset quality				
Impaired loans ratio	0.7	0.7	0.7	0.8
Growth in gross loans	0.9	-0.4	12.4	4.4
Loan loss allowances/impaired loans	26.2	27.4	25.9	27.4
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.1
Capitalisation				
Common equity Tier 1 ratio	20.1	19.8	20.7	19.2
Tangible common equity/tangible assets	4.0	3.7	5.1	5.5
Basel leverage ratio	4.1	3.3	3.1	3.4
Net impaired loans/common equity Tier 1	11.0	11.2	11.8	12.6
Funding and liquidity				
Gross loans/customer deposits	108.2	104.3	99.5	92.0
Gross loans/customer deposits + covered bonds	n.a.	n.a.	n.a.	89.8
Liquidity coverage ratio	224.0	265.3	241.8	193.4
Customer deposits/total non-equity funding	75.0	75.5	77.5	86.4
Net stable funding ratio	n.a.	136.3	141.4	138.2

Source: Fitch Ratings, Co-op Bank

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
Government ability to support D-SIBs	
Sovereign Rating	AA-/ Negative
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

The GSR reflects Fitch's view that senior creditors cannot rely on extraordinary support from the UK authorities if The Co-operative Bank becomes non-viable. This is because of UK legislation and regulations that provide a framework that is likely to require senior creditors to participate in losses after a failure.

Environmental, Social and Governance Considerations

FitchRatings **The Co-operative Bank p.l.c.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

The Co-operative Bank p.l.c. has 5 ESG potential rating drivers

- The Co-operative Bank p.l.c. 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	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.

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	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.	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

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.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.