

Banco La Hipotecaria, S.A.

Key Rating Drivers

Support-Driven Ratings: Banco La Hipotecaria, S.A.'s (BLH) IDR, Shareholder Support Rating (SSR), national ratings and senior debt ratings are underpinned by the ability and willingness of its ultimate shareholder, Grupo ASSA, S.A. (Grupo ASSA; BBB-/Stable), to provide timely support to the bank if needed. Fitch Ratings believes the group's commitment to its subsidiary is sufficiently strong for BLH's IDR and SSR to be equalized with its parent's IDR. The Stable Rating Outlook on the bank's long-term IDR mirrors the parent's Rating Outlook.

Strategic Role in Group: Fitch's assessment of the parent's propensity to provide support places substantial weight on BLH's relevant role as a key and long-term strategic contributor to strengthening the group's regional position. BLH operates in a strategically relevant jurisdiction and in market segments that are complementary to many of Grupo ASSA's subsidiaries. As of YE23, BLH accounted for about 28.6% of Grupo ASSA's consolidated assets.

Strong Integration with Parent: Fitch's analysis also considers the high integration between the Panamanian subsidiary and Grupo ASSA at the managerial, operational and technological levels to be a highly influential support factor. Grupo ASSA owns about 78% of BLH.

Focused Business Profile in Different Jurisdictions: BLH's 'bb-' Viability Rating (VR) takes into account the bank's operations in different countries and its focus on the housing sector, being an important player in the securitization of mortgage loans in the region. BLH has achieved a relevant market position in its target sector. However, the bank's local market share is small, at about 2.3% as of November 2023, with average total operating income of USD24 million over the past four years. BLH's specialized franchise also benefits from the bank's solid relationship and high integration with Grupo ASSA and the synergies generated between the group's different businesses, supporting its 'b+' business profile score.

Loan Quality with Favorable Trend: In 2023, the nonperforming loans ratio (NPLs; stage 3) continued its downward trajectory to arrive at 3.1% as of YE23, after reaching 3.8% in 2022 and 7.6% in 2021. This improvement was boosted by portfolio growth, along with a decrease in NPLs, reflecting BLH's appropriate credit risk control. Fitch expects that while the metric could deteriorate slightly, it will remain commensurate with the 'bb-' score for asset quality given the initiatives implemented by the bank.

Pressured Profitability: BLH's favorable profitability trajectory reversed in 2023, due to a further increase in funding costs relative to lending rates. This led to a tighter net interest margin (NIM). Operating expenses and loan loss provisions remained controlled. In 2023, the operating profit-to-risk-weighted assets (RWA) ratio decreased to 0.6%, from 1.2% in 2022. Fitch expects this metric to come under further pressure in 2024, and recover somewhat in 2025. This is consistent with a score of 'b' for profitability. Greater-than-expected pressures could negatively impact the rating.

Adequate Capital Levels: BLH's capitalization metrics have showed a slight upward trend. In 2023, the common equity Tier 1 (CET1)-to-RWA ratio reached 12.0%, up from 11.4% in 2021, which together with the countercyclical capital buffer gives the bank reasonable headroom to absorb potential losses. Fitch expects capitalization ratios to remain close to current levels in 2024. Fitch also believes potential risk would be attenuated by Grupo ASSA's support, if necessary.

Diverse Funding Sources; Stable Liquidity: The bank's financing structure is underpinned by a relatively balanced combination of customer deposits and credit lines with multilateral institutions and social impact funds, local debt issues and covered bonds, favoring the bank's cost of funding. BLH also benefits from synergies with Grupo ASSA in this regard. In 2023, the bank's loan-to-deposit ratio reached a high 174.9%. Its liquidity is managed prudently and has remained stable, giving it flexibility to navigate challenges in the operating environments (OE) where the bank operates.

Ratings

Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
Viability Rating	bb-
Shareholder Support Rating	bbb-

National Scale Rating

National Long-Term Rating	AA+(pan)
National Short-Term Rating	F1+(pan)

Sovereign Risk (Panama)

Long-Term Foreign Currency IDR	BB+
Country Ceiling	A+

Rating Outlooks

Long-Term Foreign Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(March 2024\)](#)
[National Scale Rating Criteria \(December 2020\)](#)

Related Research

[Latin American Banks Outlook 2024 \(December 2023\)](#)

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Rating Sensitivities

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

- BLH's IDR, SSR and national scale ratings would be downgraded if Grupo ASSA's IDRs were downgraded, or if Fitch perceives a decrease in the parent's willingness to support its subsidiary. However, this is currently not expected.
- Further deterioration in the bank's OE that impacts expected profitability prospects, leading to a four-year average operating profit-to-RWA ratio consistently below 0.5%, could result in a downgrade of the VR.
- BLH's VR could be downgraded in the event of a sustained deterioration in loan quality to higher-than-expected levels and, if affected, the CET1-to-RWA ratio remaining steadily below 10%.

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

- BLH's IDRs, SSR and national scale ratings could be upgraded if the parent's IDRs were upgraded.
- Potential for an upgrade in BLH's VR is limited given the current challenging OE. However, over the medium term the VR could be upgraded if there were a sustained strengthening of the bank's overall business and risk profile and this was reflected in its loan quality.
- Improvement in profitability and capitalization, reflected in an operating profit-to-RWAs ratio consistently above 1.5% and a CET1-to-RWA ratio of at least 15%, could result in an upgrade of the bank's VR.

Other Debt and Issuer Ratings

Rating type	Rating
Senior Secured by Trust over Loan Portfolio: National Long-Term	AAA(pan)
Senior Unsecured/Secured by Grupo ASSA's Collateral: National Long-Term	AA+(pan)
Senior Secured/Unsecured Short-Term Debt	F1+(pan)

Source: Fitch Ratings

Senior Debt: The senior unsecured debt is rated in line with the bank's long-term and short-term national scale ratings, as the notes' likelihood of default is the same as BLH's. The national scale ratings for secured tranches and negotiable obligations guaranteed by Grupo ASSA's collateral are rated in line with the issuer's national scale ratings, reflecting the same probability of default of BLH and, in turn, of its ultimate parent, reflecting its support.

National scale ratings for tranches secured by a trust and for negotiable notes secured by a trust are one notch above the bank's long-term national scale ratings, reflecting the benefits of such guarantees.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- BLH's national senior secured and unsecured debt ratings would move in tandem with and equal proportion to the bank's national scale ratings.

Significant Changes from Last Review

Multijurisdictional Operating Environment: Fitch has revised the OE score for Panama's banking system to 'bb+' / Negative from 'bb+' / Stable, as it expects Panamanian banks to face material challenges in 2024 stemming from economic slowdown, high financing costs and persistent pressures on loan quality. BLH's 'bb-' VR takes into account the bank's operations in different countries. Fitch assesses BLH's OE based on the weighted average of its earnings assets in each jurisdiction, giving the bank's OE one notch of uplift for geographical diversification and considering that Panama is its legal domicile. This results in a blended OE score of 'bb+' with a negative trend, influenced by the trend of Panama's OE, the jurisdiction in which BLH operates and stands out in terms of its share of earnings assets. The score reflects the OE's impact on all Panamanian banks' financial performance given expected challenging conditions for the country.

Ratings Navigator

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

The Key Rating Driver (KRD) weightings used to determine the implied Variability Rating (VR) are shown as percentages at the top. In cases where the implied VR is adjusted upward or downward 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 Operating Environment score of 'bb+' has been assigned below the implied score of 'bbb' due to the following adjustment reason: International Operations (negative);
- The Funding and Liquidity score of 'bb-' has been assigned above the implied score of 'b and below' due to the following adjustment reason: Nondeposit Funding (positive).

Company Summary and Key Qualitative Factors

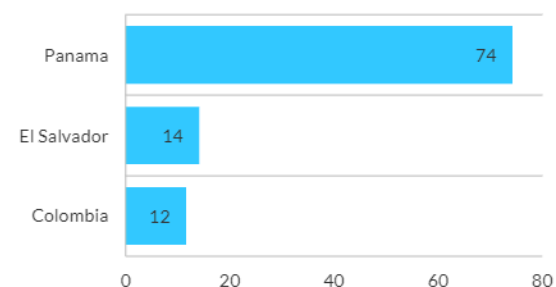
Business Profile

The bank's consistent and monoline business model focusing primarily on the financing of residential mortgages, which Fitch considers stable and low risk, has resulted in relatively steady total operating income of USD24 million on average over the past four years. BLH specializes in financing long-term residential mortgages to middle-income and lower-middle income employees and, to a lesser extent, grants consumer loans. This business model is replicated in BLH's subsidiaries in Colombia and El Salvador. The bank is a relevant player in securitizing mortgage loans in the region, although it is small within the Panamanian banking system in terms of assets, with a market share of around 1%, evidencing its limited pricing power compared to larger competitors. The bank also continues to expand its digital channels to provide greater service coverage to customers.

BLH's staff comprises high profile executives with ample experience in its business and in the countries in which it operates, as well as stability in terms of tenure. BLH's regional management structure allows it to align its organizational culture in the markets in which it operates, which also provides a more streamlined administrative structure, faster and closer communication between countries, economies of scale and cost savings and efficiencies. The bank's corporate governance framework adheres to sound policies and practices, benefiting creditor interests. The bank's strategies have been characterized by clear, reasonable and consistent objectives for the three countries in which it operates while adapting to the particularities of each market. In Fitch's view, BLH has a good track record of execution, generally achieving its budget targets. BLH is a subsidiary of Grupo ASSA, a leading insurance group in Panama, which has fostered synergies between the group's businesses.

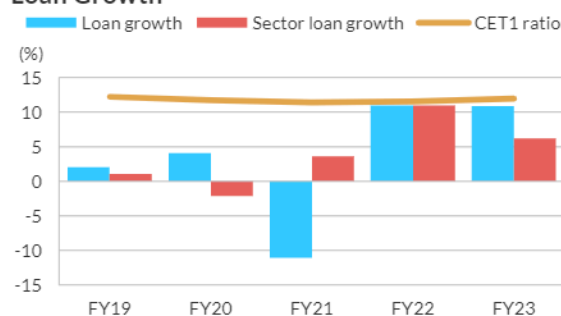
Loan Split by Geography (%)

As of December 2023



Source: Fitch Ratings, BLH

Loan Growth



Source: Fitch Ratings, Fitch Solutions, BLH

Risk Profile

The bank has historically maintained a conservative risk appetite commensurate with its business model and prudent credit policies. Underwriting standards are in line with the served segment and their effectiveness has been reflected in reasonable loan quality supported by a high proportion of guarantees and actions implemented by the bank. Securities investment guidelines are prudent. In Fitch's opinion, BLH's risk and control framework has suitable depth for the bank's business orientation and loan book composition, which also benefits from shareholder support. Full risk management is performed and monitored by the regional risk unit, supported by committees common to all three countries. Monitoring infrastructure is adequate for the bank's operations, allowing it to effectively manage risks, in Fitch's view.

The loan book continued to grow in 2023, reaching 10.9%, close to the 2022 figure (11.0%) and higher than the banking system average, supported by a dynamic economy during most of the year. The bank has moderate exposure to market risk from an interest rate mismatch between assets and liabilities on the balance sheet and foreign exchange exposure related to currency volatility at the Colombian subsidiary. However, BLH does not use any other financial instruments to hedge against these risks. In 2023, the mismatch between assets and liabilities that are sensitive to interest rates presented a positive gap for the one-year bucket, although it was negative for the one-to five-year bucket. This could give BLH some flexibility in the short term in the face of relevant interest rate changes. Performing sensitivity analysis to a 50-bps movement in interest rates results in +/-3.6% of equity in 2023. The bank has a well-defined operational risk framework. It has also strengthened its monitoring tools in light of the increased use of electronic channels.

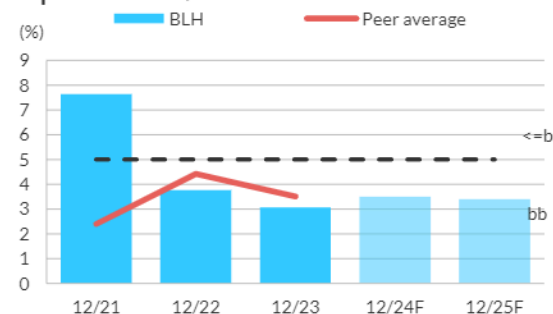
Financial Profile

Asset Quality

BLH's loan quality continues to be adequate given the bank's orientation toward middle-income and lower-middle income customers, who are more vulnerable to economic downturns. In 2023, the NPLs metric continued its downward trajectory, registering 3.1% (2021: 7.6%). This improvement was boosted by portfolio growth and a decrease in the NPL amount combined with tight credit risk control. Fitch expects this metric to deteriorate slightly but remain consistent with a 'bb-' score given the bank's initiatives to improve asset quality. Around 2.2% of the portfolio was in stage 2 as of YE23, while restructured loans remained low.

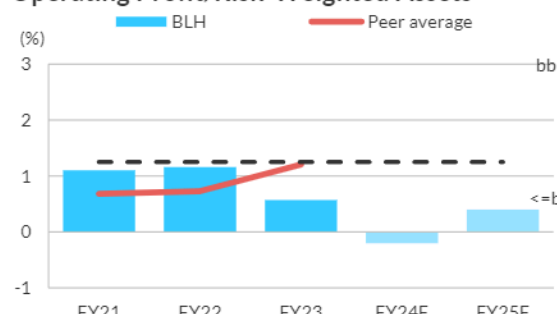
Given the nature of the business model, loan loss allowances for impaired loans are lower than other peers, due to the high percentage of guarantees of its loan portfolio, although these have improved and represented 15.3% in 2023, equal to the 2022 figure and higher than in 2021 (7.9%). Fitch therefore positively weighs the high level of guarantees as a mitigant against potential deterioration in borrowers' payment capacity. Likewise, borrower concentration is low given that mortgage loans are highly fragmented, with the 20 largest debtors accounting for about 0.1x of equity. Investment portfolio credit risk is moderate. The investment portfolio primarily comprises mortgage loan bonds, government bonds (U.S., Colombia and Panama), residual interest from mortgage portfolio securitizations, among others.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

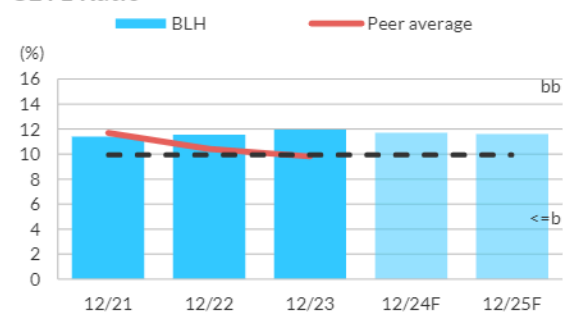
A positive profitability trend reversed in 2023, since the bank recorded an operating profit-to-RWA ratio of 0.6% (2019–2022: 1%), mainly due to NIM falling to 1.2% from 2.0% in 2022 (2019–2021: 1.9%). Fitch expects further pressure on this metric in 2024 given the reduced flexibility of BLH's NIM in the face of higher funding rates. Fitch expects the metric to recover slightly in 2025 as a result of different performance improvement strategies. Fitch also believes the bank's moderate revenue diversification, due to its niche model, limits revenue generation and flexibility to favourably manage NIM pressures.

Although the bank's operating expenses decreased in 2023, efficiency measured in terms of noninterest expense to gross revenues rose to 78.3%, from a 2019–2022 average of 69.5%, but were similar compared to pre-pandemic percentages. BLH continues to digitize its operations to gain further efficiencies. In addition, lower loan impairment charges (LICs) in 2023 were reflected in their reduction relative to pre-impairment profit, which reached 23.3% versus 25.7% in 2022 (2020–2021 average: 38.1%), and thus did not affect profitability. Fitch expects LICs to remain controlled and consistent with estimated deterioration for the foreseeable future.

Capital and Leverage

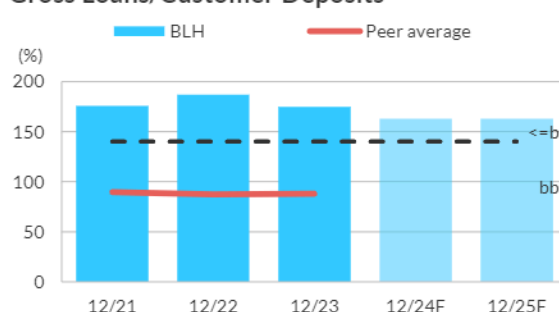
In 2023, BLH's capitalization metrics exhibited a mild upward trajectory due to CET1 expansion being higher than loan and RWA growth, together with moderate internal capital generation. In 2023, the CET1-to-RWA ratio reached 12.0% (2021: 11.4%). The total capital regulatory ratio followed a similar pattern, registering 13.1% in 2023, up from 12.6% in 2022. CET1 may also benefit from countercyclical capital buffers, which could add adequate room to absorb losses and withstand prevailing conditions. Fitch estimates that BLH's capitalization ratios will remain close to current levels despite expected profitability pressures. Fitch also views positively the potential support from Grupo ASSA, if required.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

BLH's funding profile benefits from synergies with its ultimate parent. In 2023, the bank saw growing retail customer deposits base and stable liquidity. Customer deposits, which make up 49.3% of total financing, expanded at a faster pace (18.6%) than loans (10.9%); this translated into improvement in the already high loans-to-deposits ratio, to 174.9% in 2023 from 187.1% in 2022 (2019–2021: 211.5%). Term deposits were the main contributor to this growth. Concentration risk remains relevant given that BLH's top 20 depositors accounted for about 47% of the total deposits in 2023. However, this risk is partially mitigated by tiered maturities to avoid single-period concentrations, as well as the stability and renewal rate of deposits.

Liquidity is managed prudently and has remained stable. In 2023, the bank's liquid assets accounted for 38.6% of customer deposits (2022: 38.5%), while the regulatory liquidity ratio was 48.9%. The bank has continuously worked to reduce financing costs by diversifying its funding structure. It has relationships with a wide variety of institutions and available credit lines that, when added to potential support from Grupo ASSA, gives it flexibility in the face of adverse market conditions.

Additional Notes on Charts

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

To the extent Fitch is aware of material nonpublic information with respect to future events, such as planned recapitalizations or M&A activity, Fitch will not reflect these nonpublic future events in its published forecasts. However, where relevant, Fitch considers such information as part of the rating process.

The black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments Fitch scores in the 'bb' rating category. Light blue columns represent Fitch's forecasts.

The peer average includes Caja de Ahorros (VR: bb-), Towerbank International, Inc. and Metrobank, S.A. y subsidiarias.

Financials

Summary Financials

	2023		2022	2021	2020
	(USD Mil.) Audited – report not seen	(PAB 000) Audited – report not seen	(PAB 000) Not disclosed	(PAB 000) Audited – unqualified	(PAB 000) Audited – report not seen
(Years ended as of Dec. 31)					
Summary income statement					
Net interest and dividend income	11	10,611.8	17,104.0	15,470.5	14,238.1
Net fees and commissions	6	5,785.6	6,201.3	5,912.2	6,260.5
Other operating income	5	4,783.1	3,251.6	3,862.9	4,439.5
Total operating income	21	21,180.6	26,557.0	25,245.7	24,938.2
Operating costs	17	16,578.8	17,630.5	16,943.9	17,387.5
Pre-impairment operating profit	5	4,601.8	8,926.5	8,301.8	7,550.7
Loan and other impairment charges	1	1,072.6	2,293.4	1,853.2	4,073.9
Operating profit	4	3,529.2	6,633.1	6,448.6	3,476.8
Tax	1	790.3	1,286.7	1,597.2	139.1
Net income	3	2,738.8	5,346.4	4,851.3	3,337.7
Other comprehensive income	7	6,577.9	-7,536.8	-5,174.0	-1,123.3
Fitch comprehensive income	9	9,316.7	-2,190.4	-322.6	2,214.4
Summary balance sheet					
Assets					
Gross loans	801	800,577.2	722,099.9	650,621.9	731,201.1
- of which impaired	25	24,533.7	27,149.4	49,731.5	10,964.4
Loan loss allowances	4	3,751.4	4,178.5	3,914.0	4,049.0
Net loans	797	796,825.8	717,921.4	646,707.9	727,152.1
Interbank	49	48,979.7	47,561.6	56,624.2	67,764.9
Other securities and earning assets	128	128,120.8	101,311.2	114,063.0	99,370.3
Total earning assets	974	973,926.3	866,794.1	817,395.1	894,287.4
Cash and due from banks	0	245.9	265.5	242.1	252.6
Other assets	53	53,060.6	59,336.6	53,077.7	51,383.5
Total assets	1,027	1,027,232.8	926,396.2	870,714.8	945,923.4
Liabilities					
Customer deposits	458	457,842.5	385,953.6	370,289.7	338,468.7
Interbank and other short-term funding	426	426,423.1	421,519.5	348,666.1	439,707.0
Other long-term funding	45	44,676.4	29,750.8	64,357.5	79,299.7
Total funding and derivatives	929	928,942.0	837,224.0	783,313.3	857,475.4
Other liabilities	13	12,975.4	13,584.7	10,026.6	10,621.5
Total equity	85	85,315.4	75,587.5	77,374.9	77,826.5
Total liabilities and equity	1,027	1,027,232.8	926,396.2	870,714.8	945,923.4
Exchange rate	–	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1	USD1 = PAB1

PAB – Panamanian balboa
Source: Fitch Ratings, Fitch Solutions, BLH

Key Ratios

(Years ended as of Dec. 31)	2023	2022	2021	2020
Ratios (annualized as appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	0.6	1.2	1.1	0.6
Net Interest Income/Average Earning Assets	1.2	2.0	1.8	1.6
Noninterest Expense/Gross Revenue	78.3	66.4	67.1	69.7
Net Income/Average Equity	3.4	7.0	6.3	4.4
Asset Quality				
Impaired Loans Ratio	3.1	3.8	7.6	1.5
Growth in Gross Loans	10.9	11.0	-11.0	4.1
Loan Loss Allowances/Impaired Loans	15.3	15.4	7.9	36.9
Loan Impairment Charges/Average Gross Loans	0.1	0.3	0.3	0.6
Capitalization				
Common Equity Tier 1 Ratio	12.0	11.6	11.4	11.7
Fitch Core Capital Ratio	N.A.	12.9	12.9	13.4
Tangible Common Equity/Tangible Assets	8.3	8.0	8.7	8.1
Basel Leverage Ratio	7.3	7.2	7.7	7.1
Net Impaired Loans/Common Equity Tier 1	27.9	34.6	68.7	10.4
Net Impaired Loans/Fitch Core Capital	N.A.	31.1	60.6	9.1
Funding and Liquidity				
Gross Loans/Customer Deposits	174.9	187.1	175.7	216.0
Gross Loans/Customer Deposits + Covered Bonds	170.9	177.2	154.3	187.7
Customer Deposits/Total Non-Equity Funding	49.3	46.1	47.3	39.5

N.A. - Not applicable

Source: Fitch Ratings, Fitch Solutions, BLH

Support Assessment

Shareholder Support	
Parent IDR	BBB-
Total Adjustments (notches)	0
Shareholder Support Rating	bbb-
Shareholder ability to support	
Shareholder Rating	BBB-/ Stable
Shareholder regulation	1 Notch
Relative size	2+ Notches
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	1 Notch
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	1 Notch
Legal commitments	2+ Notches

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

■ Higher influence ■ Moderate influence ■ Lower influence

The 'bbb-' SSR denotes Fitch's assessment on the support the bank would receive from its ultimate shareholder, Grupo ASSA, if required. Fitch considers the relevant role the bank represents for the group, along with strong integration between the entities, as factors with high importance and, in turn, highly influential for BLH's SSR. Grupo ASSA consolidates the insurance, investment and lending operations across Central America and Colombia.

Environmental, Social and Governance Considerations

FitchRatings Banco La Hipotecaria, S.A.

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco La Hipotecaria, S.A. has 5 ESG potential rating drivers		key driver	0	issues	5	Overall ESG Scale				
➤	Banco La Hipotecaria, 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.	driver	0	issues	4					
➤	Governance is minimally relevant to the rating and is not currently a driver.	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	How to Read This Page
GHG Emissions & Air Quality	1	n.a.	n.a.	5	<p>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.</p> <p>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.</p> <p>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.</p>
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	

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale	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).
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	<p>Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.</p>
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	CREDIT-RELEVANT ESG SCALE
					How relevant are E, S and G issues to the overall credit rating?
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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.
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	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.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	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.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	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, due to either their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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