

Macquarie Group Limited

Key Rating Drivers

Low Double Leverage: Fitch Ratings aligns Macquarie Group Limited's (MGL) ratings with the consolidated group assessment to reflect modest common equity double leverage (group operates to a 110% limit) and sound liquidity management. We also believe liquidity management at the operating and bank holding company levels will remain strong.

Robust Risk-Control Framework: MGL's centralised risk management framework and oversight through a dedicated group support a strong risk-management culture and robust financial outcomes over a sustained period. This helps to offset the group's larger risk appetite than most other Australian banking groups.

Continued Growth in Annuity-Style Businesses: MGL's non-bank business model and earnings stability has improved over a number of years, supported largely by the Macquarie Asset Management (MAM) business, which derives a large portion of its income through recurring base and performance fees on assets under management. Moreover, the group's banking operations in Australia, which are focused on low-risk mortgages, continue to grow as a proportion of the overall group.

Internationally Diversified Operations: Fitch takes a blended approach when assigning an operating environment (OE) score to MGL, given the large scope of its international operations. MGL's score reflects the heavy weighting of its assets and exposures in jurisdictions where Fitch has scored in the 'aa' range for OE.

Asset Quality to Weaken: Fitch expects moderate deterioration in loan quality over the next two years, driven by the impact of high interest rates flowing through to Australian mortgage borrowers and a slowing economy. We forecast unemployment to remain relatively low, which means loan weakening should remain manageable for the group. Fitch scores MGL's asset quality at 'a', one notch lower than its banking operations, which reflects the higher level of corporate and commercial exposures as well as moderately higher impaired-loan ratio.

Moderation in Earnings and Profitability: We expect MGL's profitability to moderate in the financial year ending March 2024 (FY24) following several years of record profit as market volatility subsides and economies slow. However, we expect the earnings and profitability metrics to remain commensurate with the assigned factor score over the next two years. The diversity of the group's operations and revenue has supported sound profit results over an extended period.

Robust Capital Buffers: We expect capital ratios to remain sound and with sufficient buffers to remain commensurate with the 'a' factor score for MGL. MGL's capital surplus to regulatory requirements was AUD13 billion, or about 48% of the regulatory requirement at FYE23. MGL does not report a common equity Tier 1 (CET1) ratio, so we have placed greater weighting on Fitch's other capitalisation metrics, such as tangible common equity/tangible assets, when assessing the group's capitalisation and leverage.

Sound Liquidity Management: Fitch expects pressure on funding and liquidity to be manageable for the group over the next 12 months. The group's strong liquidity management and sound liquidity ratios help to offset some of the risks on its greater reliance on wholesale funding than international peers. This underpins Fitch maintaining a factor score of 'a' for MGL, above the implied 'bbb category'.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Government Support Rating	ns

Sovereign Risk (Australia)

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

Outlooks

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

Applicable Criteria

[Non-Bank Financial Institutions Rating Criteria \(May 2023\)](#)

[Bank Rating Criteria \(September 2023\)](#)

Related Research

[Macquarie Bank Limited \(October 2023\)](#)

[Fitch Affirms Macquarie Group and Subsidiaries at 'A'; Outlook Stable \(October 2023\)](#)

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Rating Sensitivities

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

MGL's ratings may be downgraded if the common equity double leverage increases to above 120% for a sustained period, although Fitch does not expect this to occur.

MGL's Viability Rating (VR) and Long-Term IDR are also broadly sensitive to the same factors as those of its operating bank subsidiary, Macquarie Bank Limited (MBL, A/Stable/a), as a downgrade in MBL's rating could result in an overall weaker consolidated group rating to which MGL is aligned.

A downgrade of MGL's Short-Term IDR to 'F2' would require the Long-Term IDR to be downgraded by at least two notches to 'BBB+' or by one notch to 'A-' combined with the funding and liquidity score also being lowered to at least 'a-'.

MGL's GSR is already at the lowest level assigned by Fitch and cannot be downgraded further.

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

MGL

MGL's ratings are also broadly sensitive to similar factors as MBL, as an upgrade of MBL's ratings could result in a higher consolidated group rating to which MGL is aligned.

MGL's Short-Term IDR could be upgraded to 'F1+' if the Long-Term IDR were upgraded to at least 'AA-' or the funding and liquidity score were upgraded to at least 'aa-' from the current 'a' which does not appear likely in the medium term.

Other Debt and Issuer Ratings

Rating level	Rating
Senior Unsecured: Long Term	A
Senior Unsecured: Short Term	F1

Source: Fitch Ratings


Senior Debt Ratings

MGL's senior debt ratings are equalised with its IDRs, as there is a large buffer of holding-company senior debt and group junior debt (which exceeds 10% of Fitch's estimated group RWAs). Moreover, MGL has highly diversified and reasonably material subsidiaries.

The 'F1' Short-Term IDR is at the lower of the two options available at a VR-driven Long-Term IDR of 'A', because the 'a' funding and liquidity score is lower than the minimum 'aa-' score to achieve the higher option of 'F1+'.

MGL's senior debt ratings are broadly sensitive to the same factors as the VRs and IDRs. MGL's senior debt ratings could also be sensitive to a significant reduction in its bank holding company senior and group junior debt buffers.

Ratings Navigator

Macquarie Group Limited							ESG Relevance: 	Banks Ratings Navigator		
Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	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 Sta
							a-	a-	a-	A-
							bbb+	bbb+	bbb+	BBB+
							bbb	bbb	bbb	BBB
							bbb-	bbb-	bbb-	BBB-
							bb+	bb+	bb+	BB+
							bb	bb	bb	BB
							bb-	bb-	bb-	BB-
							b+	b+	b+	B+
							b	b	b	B
							b-	b-	b-	B-
							ccc+	ccc+	ccc+	CCC+
							ccc	ccc	ccc	CCC
							ccc-	ccc-	ccc-	CCC-
							cc	cc	cc	CC
							c	c	c	C
							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The funding and liquidity score of 'a' for MGL has been assigned above the 'bbb' category implied score for following adjustment reason: liquidity coverage (positive).

Company Summary and Key Qualitative Factors

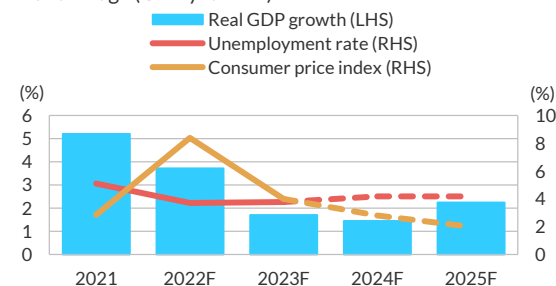
Operating Environment

MGL is the most internationally active among the Australian banking groups that Fitch rates. Offshore revenue accounted for around 71% of total income at FYE23. North America (mainly the US), Europe and Asia are the main non-domestic markets. A significant proportion of group earnings and assets are situated in jurisdictions that Fitch assesses in the 'aa' range, which supports MGL's OE score of 'aa'.

We expect the economic environment in Australia to become increasingly challenging for banks for the remainder of 2023 and into 2024. The Reserve Bank of Australia's (RBA) rapid interest rate rises over the last year to address high inflation is likely to slow economic growth and increase unemployment. However, unemployment should remain lower than historical levels, preventing a sharp deterioration in asset quality across the system, although pockets of borrowers are likely to be under pressure from the higher interest rates.

Australian Economy

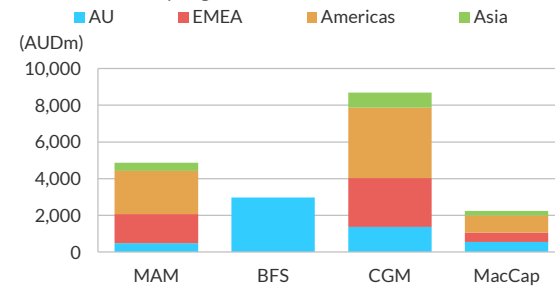
Year average (GDP year end)



Source: Fitch Ratings, Fitch Solutions

Geographic Diversity

FYE23 revenue by region



Source: Fitch Ratings, MGL

Business Profile

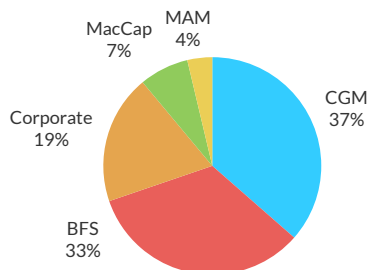
MGL is the listed non-operating holding company parent of the Macquarie group. Its three main subsidiaries are MBL, which undertakes more traditional banking operations, as well as Macquarie Financial Holdings Pty Limited (MFHL, A/Stable) and Macquarie Asset Management Holdings Pty Limited, both of which carry out most of the non-banking operations. The group offers a full suite of banking services in Australia while targeting niche and non-traditional banking activities offshore.

The group's business model has remained broadly stable and we expect this to continue as expansion tends to be focused in existing areas of expertise. MGL has four broad operating divisions. There are two capital-markets-facing businesses – Macquarie Capital Group (MacCap) and Commodities and Global Markets (CGM) – and two businesses with more stable earnings streams – Macquarie Asset Management (MAM) and Banking and Financial Services (BFS). The divisions are supported by centralised risk management, treasury, IT, finance services, legal and governance.

Fitch views MGL's management as having a high degree of depth and quality. This has contributed to a consistent group culture and execution of strategic objectives, which has resulted in strong financial performance over an extended period. Residential mortgage and business lending in Australia remain strong relative to system, while the group broadly continues to target niche areas where it has expertise and competitive advantages rather than focusing on mass-market segments.

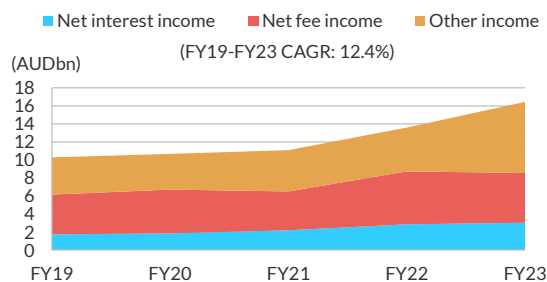
MGL can be acquisitive, although the group has been disciplined with such transactions. Business expansion tends to be related to an existing operation and significant acquisitions are usually funded through debt and capital raisings. The group has demonstrated a willingness to sell, restructure or exit businesses that do not meet return hurdles.

MGL Segment Assets
FYE23



Source: Fitch Ratings, MGL

Revenue Breakdown



CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, MGL

Risk Profile

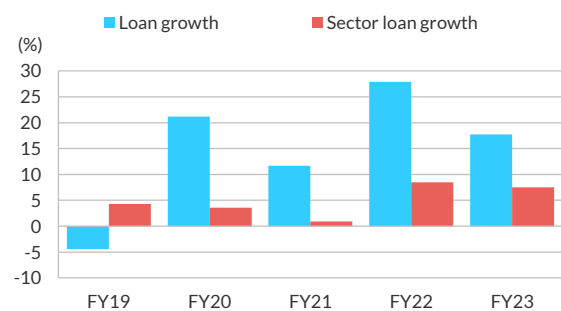
MGL has a larger risk appetite than most Australian banking groups, which tend to be heavily orientated towards retail and traditional banking activities. A consistent and strong risk management culture through the years has helped to offset MGL’s risk appetite. This is reflected in a long, successful record of execution. MGL’s risk framework is centralised and applied through the group entities.

MGL says it uses tail-risk scenarios to analyse exposures and assess proposed business decisions. MGL will manage exposures or not proceed with businesses if potential losses can threaten the group’s viability under these worst-case scenarios. This should provide additional protection to the group in the event of another downturn or heightened volatility.

Strong loan growth, which was well above system levels over the last three years, has largely been driven by the banking operations, most of which has been in residential mortgages. This has been supported by investment in technology, broker relationships and faster processing times relative to peers, rather than weaker underwriting, such as high loan-to-value ratio loans or interest-only lending.

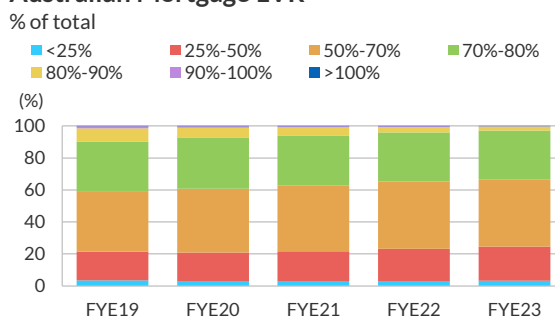
MBL has the largest balance sheet within the group, and therefore makes up the majority of MGL’s risk exposure. Details of underwriting, growth and market risk can be found in our rating report on MBL, which is available via the link on page 1.

Loan Growth



Source: Fitch Ratings, Fitch Solutions, MGL

Australian Mortgage LVR



Source: Fitch Ratings, MBL

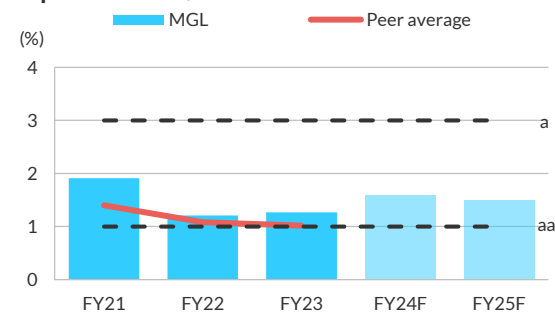
Financial Profile

Asset Quality

MGL has greater exposure to commercial and non-loan assets than most domestic peers. This exposure may leave its asset quality more susceptible to deterioration through the cycle. Loans made up only 41% of MGL's assets at FYE23, which was significantly lower than most domestic banking group peers. Asset quality has historically been stronger in MGL's non-loan financial assets (mostly investment-grade on MGL's internal scale) and residential mortgage book (72% of total loans) than in its corporate, commercial and other lending, and this should remain the case.

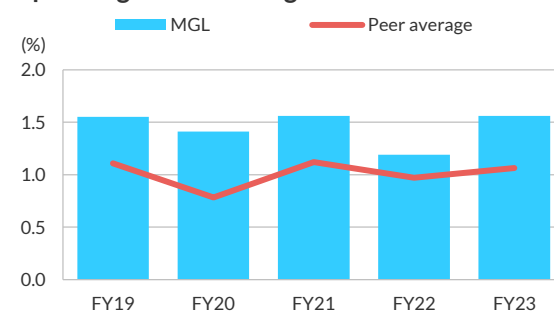
The bulk of MGL's remaining assets were mainly derivative, financial investments and trading assets at FYE23. Derivative assets tend to show more volatility, depending on client activity and mark-to-market movements. Trading assets consist mainly of government debt securities, listed equities and commodities, while financial investments mostly consist of debt securities held as liquid asset holdings.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Average Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Relative to domestic peers, MGL generates a significant proportion of non-interest income, such as net fee and commission income and net trading income, which combined accounted for 82% of operating income at FYE23. We view some of the fee income, such as base fees from the asset management business, to be reasonably stable as they are largely tied to the volume and value of assets under management. Trading and derivatives income in CGM and deal-related fee income in MacCap has shown greater variability, although this has been mostly on the upside during periods of high commodity price volatility.

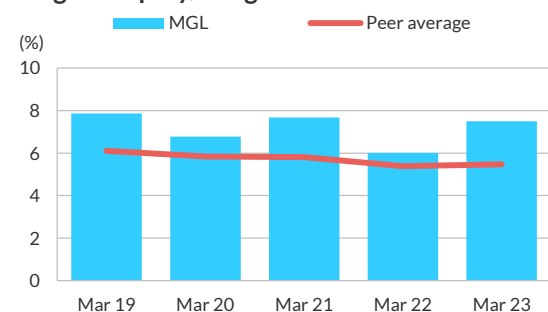
Fitch mainly focuses on the operating profit/average total assets metric when assessing MGL's earnings, as only the banking operation is required to calculate RWAs under Australia's regulatory framework. MGL also regularly generates significant non-operating revenue through the sale of assets and businesses, and Fitch also considers the return on equity metric when analysing MGL's earnings to capture this. Both these metrics compare favourably with similarly rated domestic and international peers with broadly comparable OE scores.

Capital and Leverage

MGL maintains a large capital surplus relative to regulatory minimums, reflecting its sound capital management. The minimum Tier 1 requirement was AUD26.4 billion at FYE23, with the group holding around 48% surplus to this level. The minimum assumes an 10.25% Tier 1 ratio for the banking group using the Australian Prudential Regulation Authority's Basel III rules. Given the higher risk profile and complexity of MGL's operations, Fitch considers strong capital buffers appropriate as it provides greater protection from unexpected risks relative to what domestic peers with simpler business models would face.

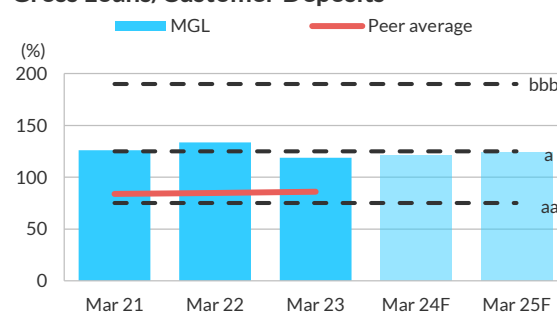
MGL is not required to calculate risk-weighted regulatory capital ratios, but is instead required to hold a nominal capital amount that is calculated by aggregating the minimum capital requirements of the group's banking and non-banking operations. In assigning MGL's factor score, we also consider un-risk-weighted capital ratios, such as tangible common equity/tangible assets, where MGL compares favourably against similarly rated international peers. Common-equity double leverage remains below MGL's internal management limits and we do not expect it to be maintained above 110%.

Tangible Equity/Tangible Assets



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

MGL relies on wholesale funding to fund non-banking group operations, as it does not have a banking licence and is prevented from gathering deposits – this activity is undertaken by MBL. The group manages its wholesale funding well with a suitable average maturity and, given the longer-term nature of the asset profile in the non-bank operations, there is an appropriate mix of currencies, investors and products.

MGL’s liquidity management policies are set so that it is able to meet all of its liquidity obligations over a 12-month period, assuming no access to funding markets. Policies for MBL assume limited market access. Liquid assets are typically held at the operating subsidiary level rather than the group level, meaning MGL is reliant on interest and dividend payments from subsidiaries to meet debt repayments. MGL and MBL account for most of the debt instruments issued to external investors.

Additional Notes on Charts

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

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

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch’s core financial metrics for banks operating in the environments that Fitch scores in the ‘aa’ category. Light-blue columns represent Fitch’s forecasts.

The peer average includes Commonwealth Bank of Australia (VR: a+), Westpac Banking Corporation (a+), Australia and New Zealand Banking Group Limited (a+), National Australia Bank Limited (a+), Morgan Stanley (a+), Citigroup Inc. (a), JPMorgan Chase & Co. (aa-), Bank of America Corporation (aa-), and BNP Paribas S.A. (a+).

The financial year end of MGL is 31 March. The financial year end of Commonwealth Bank of Australia is 30 June. The financial year end of Westpac Banking Corporation, Australia and New Zealand Banking Group Limited and National Australia Bank Limited is 30 September. The latest average uses FY23 data for Commonwealth Bank of Australia; and 1H23 data for Westpac Banking Corporation, Australia and New Zealand Banking Group Limited, National Australia Bank Limited, Morgan Stanley, Citigroup Inc., JPMorgan Chase & Co., Bank of America Corporation, and BNP Paribas S.A.

Financials

Summary Financials

	31 Mar 23		31 Mar 22	31 Mar 21	31 Mar 20	31 Mar 19
	Year end (USDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	2,032	3,028.0	2,860.0	2,195.0	1,859.0	1,760.0
Net fees and commissions	3,712	5,530.0	5,858.0	4,297.0	4,873.0	4,386.0
Other operating income	6,432	9,583.0	5,297.0	5,679.0	5,265.0	5,193.0
Total operating income	12,176	18,141.0	14,015.0	12,171.0	11,997.0	11,339.0
Operating costs	7,464	11,121.0	9,835.0	7,988.0	7,907.0	7,747.0
Pre-impairment operating profit	4,712	7,020.0	4,180.0	4,183.0	4,090.0	3,592.0
Loan and other impairment charges	260	388.0	250.0	369.0	924.0	527.0
Operating profit	4,451	6,632.0	3,930.0	3,814.0	3,166.0	3,065.0
Other non-operating items (net)	242	360.0	2,609.0	93.0	288.0	802.0
Tax	1,224	1,824.0	1,586.0	899.0	728.0	879.0
Net income	3,469	5,168.0	4,953.0	3,008.0	2,726.0	2,988.0
Other comprehensive income	1,089	1,623.0	52.0	-1,789.0	1,116.0	276.0
Fitch comprehensive income	4,558	6,791.0	5,005.0	1,219.0	3,842.0	3,264.0
Summary balance sheet						
Assets						
Gross loans	107,317	159,888.0	135,775.0	106,157.0	95,041.0	78,429.0
- Of which impaired	1,359	2,025.0	1,644.0	2,024.0	1,991.0	1,935.0
Loan loss allowances	883	1,316.0	1,031.0	1,131.0	924.0	618.0
Net loans	106,434	158,572.0	134,744.0	105,026.0	94,117.0	77,811.0
Interbank	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Derivatives	24,240	36,114.0	84,891.0	20,642.0	45,607.0	14,390.0
Other securities and earning assets	66,831	99,569.0	81,275.0	72,197.0	72,121.0	59,078.0
Total earning assets	197,504	294,255.0	300,910.0	197,865.0	211,845.0	151,279.0
Cash and due from banks	30,644	45,656.0	52,754.0	18,425.0	9,717.0	8,643.0
Other assets	32,191	47,961.0	45,512.0	29,363.0	34,240.0	37,835.0
Total assets	260,340	387,872.0	399,176.0	245,653.0	255,802.0	197,757.0
Liabilities						
Customer deposits	90,420	134,714.0	101,667.0	84,199.0	67,342.0	56,191.0
Interbank and other short-term funding	29,853	44,477.0	16,947.0	4,542.0	2,334.0	4,838.0
Other long-term funding	60,975	90,845.0	118,021.0	75,894.0	85,257.0	63,835.0
Trading liabilities and derivatives	25,237	37,600.0	89,754.0	23,784.0	43,943.0	19,573.0
Total funding and derivatives	206,485	307,636.0	326,389.0	188,419.0	198,876.0	144,437.0
Other liabilities	27,092	40,363.0	39,066.0	30,557.0	31,336.0	31,029.0
Preference shares and hybrid capital	3,871	5,767.0	4,915.0	4,324.0	4,204.0	4,325.0
Total equity	22,892	34,106.0	28,806.0	22,353.0	21,386.0	17,966.0
Total liabilities and equity	260,340	387,872.0	399,176.0	245,653.0	255,802.0	197,757.0
Exchange rate		USD1 = AUD1.489869	USD1 = AUD1.336541	USD1 = AUD1.315443	USD1 = AUD1.619433	USD1 = AUD1.411034

Source: Fitch Ratings, MGL

Key Ratios

	31 Mar 23	31 Mar 22	31 Mar 21	31 Mar 20	31 Mar 19
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	n.a.	n.a.	n.a.	n.a.	n.a.
Net interest income/average earning assets	0.9	1.1	1.1	1.0	1.1
Non-interest expense/gross revenue	67.6	72.4	71.9	74.1	75.2
Net income/average equity	16.4	19.7	14.0	13.8	17.1
Asset quality					
Impaired loans ratio	1.3	1.2	1.9	2.1	2.5
Growth in gross loans	17.8	27.9	11.7	21.2	-4.4
Loan loss allowances/impaired loans	65.0	62.7	55.9	46.4	31.9
Loan impairment charges/average gross loans	0.2	0.1	0.3	0.7	0.3
Capitalisation					
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	7.5	6.0	7.7	6.8	7.9
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	2.5	2.6	4.8	6.3	8.6
Funding and liquidity					
Gross loans/customer deposits	118.7	133.6	126.1	141.1	139.6
Gross loans/customer deposits + covered bonds	117.8	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	48.0	41.2	48.1	40.9	41.3
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, MGL

Support Assessment

Commercial Banks: Government Support

Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	a
Government Support Rating	ns

Government ability to support D-SIBs

Sovereign Rating	AAA/ Stable
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	Neutral
Support stance	Neutral

Government propensity to support bank

Systemic importance	Negative
Liability structure	Negative
Ownership	Neutral

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

■ Higher influence
 ■ Moderate influence
 ■ Lower influence

Subsidiaries and Affiliates

Core and Integral Subsidiaries

MFHL's Long-Term IDR of 'A', which is driven by its Shareholder Support Rating (SSR) of 'a', is equalised with that of its direct parent MGL. MFHL's SSR reflects its status as a key and integral part of the group's business, undertaking core non-banking activities. In addition, if MFHL were to default, it would have a huge impact on the reputation of the parent and damage its franchise.

Any change in the IDRs of MGL would be reflected in the IDRs of MFHL, assuming no change to Fitch's assumption around the propensity of support. Additionally, a reduction in the role and relevance of MFHL to the group could lead to a downward revision of its SSR and therefore IDRs.

Environmental, Social and Governance Considerations

FitchRatings Macquarie Group Limited

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

<p>Macquarie Group Limited has 5 ESG potential rating drivers</p> <ul style="list-style-type: none"> Macquarie Group Limited 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. 	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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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 relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact. Scores of 3, 4 or 5) and provides a brief explanation for the score.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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

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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance	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, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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