Israel Discount Bank Limited

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1+
Long-Term IDR (xgs)	A-(xgs)
Short-Term IDR (xgs)	F2(xgs)
Viability Rating	a-
Government Support Rating	a

Sovereign Risk

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

Watches

Long-Term Foreign-Currency IDR	Negative
Short-Term Foreign-Currency IDR	Negative
Government Support Rating	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Key Rating Drivers

State Support Drives IDRs: Israel Discount Bank Limited's (IDB) Issuer Default Ratings (IDRs) reflect Fitch Ratings' view of a very high probability that Israel would provide support to IDB. Fitch believes that Israel's ability and propensity to support IDB are very high, particularly given the systemic importance of the bank, which holds about 15% of Israel's banking system assets.

Uncertain Economic Environment: The Israel-Hamas war has caused an initial contraction of economic activity. Our negative outlook on the operating environment reflects uncertainty around the war's severity, duration and longer-term impact. The Israeli government and central bank have implemented measures to support the economy and the most affected borrowers. Fitch expects the benefit of higher interest rates to recede in 2024 due to rising deposit costs.

Diversified Business Model: IDB's Viability Rating (VR) reflects a strong franchise in retail and corporate banking in Israel. Asset quality and earnings will likely come under pressure from the Israel-Hamas war, but we expect them to remain resilient due to their strong starting position. The VR also reflects the bank's sound funding, given its diversified and granular deposit base, and adequate capitalisation.

Close Regulatory Oversight: IDB's underwriting is conservative, helped by tight regulatory limits and oversight from the Bank of Israel. Like other Israeli banks, IDB's material exposure to the construction and real estate sectors makes its asset quality vulnerable to a sharp decline in real estate prices. However, the majority of its exposure is to residential projects, which we expect to continue to perform adequately given high population growth and structural demand for housing in Israel.

Asset Quality Under Pressure: IDB's impaired loans ratio increased to 0.8% by end-September 2023 (0.6% at end-September 2022). IDB's loan impairment charge of ILS596 million in 3Q23 reflects the likely impact of the war and is comparable in size to the provisions taken at the start of the coronavirus pandemic in 1Q20. We forecast the impaired loans ratio to remain below 1.5% over the next two years due to sound underwriting and Israel's resilient operating environment.

Earnings to Weaken: Profitability has benefited from increasing interest rates and loan growth (7.7% in 9M23), which boosted net interest income. However, we expect lower loan growth, which will only be partially offset by cost-efficiency programmes. We expect the bank's operating profit to remain above 2% of risk-weighted assets (RWAs) over the next two years.

Adequate Capital Buffers: Capital headroom is limited, with a common equity Tier 1 (CET1) ratio of 10.36% at end-3Q23. IDB had a 117bp buffer above its 9.19% regulatory CET1 requirement at end-9M23, which is small by international standards, but we view it as adequate for the high standardised risk-weights (end-9M23 RWAs/total assets: 68%) used by the Israeli banking sector. IDB has temporarily decreased its dividend payout ratio to 15% at 3Q23.

Large, Stable Deposit Base: IDB's solid and stable funding base consists mostly of customer deposits, which represented 88% of total non-equity funding at end-9M23, broadly in line with that of domestic and international peers. Liquidity is soundly above the 100% minimum regulatory requirement, with a liquidity coverage ratio of 136% at end-9M23.

Short-Term Support More Certain: IDB's 'F1+' Short-Term IDR is the higher of two possible options that map to an 'A' Long-Term IDR. This is because we view the sovereign's propensity to support as more certain in the near term.

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Fitch Maintains Israel Discount Bank's 'A' IDR on Rating Watch Negative (December 2023)

Global Economic Outlook (December 2023)

Fitch Places Four Israeli Banks on RWN after Sovereign Action (October 2023)

Fitch Places Israel's 'A+' IDRs on Rating Watch Negative (October 2023)

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Rating Sensitivities

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

A downgrade of the sovereign rating is likely to result in a downgrade of IDB's Government Support Rating (GSR) and IDRs.

A sharp deterioration of asset quality as a result of the war that would result in an impaired loans ratio of above 2% for an extended period, combined with the CET1 declining below current levels, and weakening internal capital generation, funding stability or liquidity could result in a VR downgrade. Given the bank's significant exposure to the real estate sector, a sharp decline in real estate prices would put pressure on asset quality and therefore on the VR.

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

IDB's GSR and IDRs are likely to be affirmed and removed from Rating Watch Negative (RWN) if Israel's ratings are affirmed and removed from RWN. An upgrade of the GSR and IDRs is unlikely due to the war and the RWN on the sovereign IDRs.

A VR upgrade is unlikely given the bank's geographical concentration and would require a material and structural improvement in profitability that allows the bank to generate stronger and more stable operating profit/RWAs while also maintaining materially higher capital ratios, which we do not expect.

Other Debt and Issuer Ratings

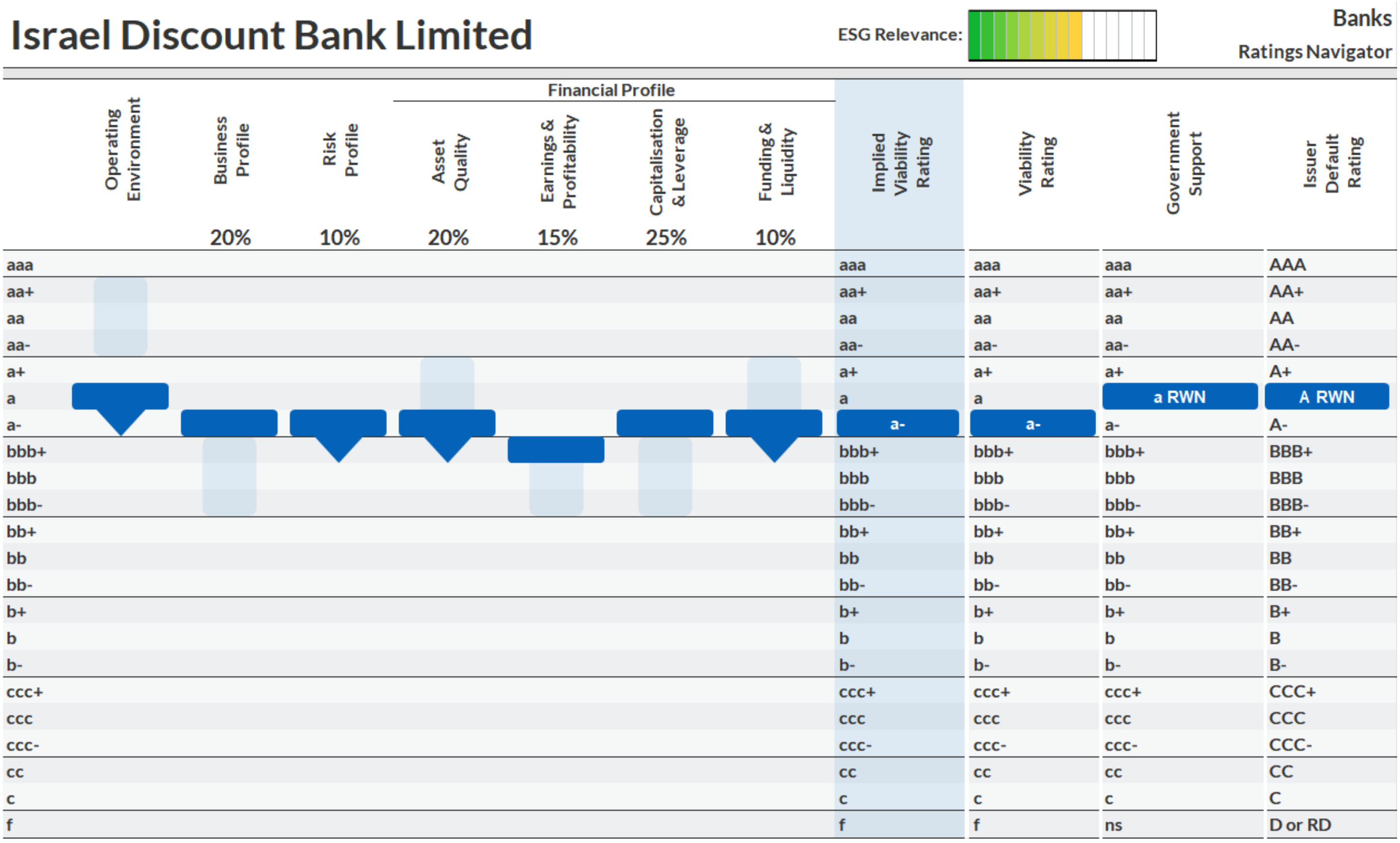
Rating Level	Rating	Outlook
Senior Unsecured: Long Term	A	Watch Negative

Source: Fitch Ratings

IDB's senior unsecured notes are rated in line with the Long-Term IDR, as they constitute the bank's unsecured and unsubordinated obligations.

The Long-Term IDR (xgs) of 'A-(xgs)' is at the level of the VR. The Short-Term IDR (xsg) of 'F2(xgs)' is the lower of two possible options that map to a 'A-' Long-Term IDR (xgs) due to IDB's 'a-' funding and liquidity score.

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 operating environment score of 'a' is below the 'aa' implied category score for the following adjustment reasons: sovereign rating (negative), size and structure of economy (negative).

The business profile score of 'a-' is above the 'bbb' implied category score for the following adjustment reason: market position (positive).

The capitalisation and leverage score of 'a-' is above the 'bbb' implied category score for the following adjustment reason: leverage and risk-weight calculation (positive).

Company Summary and Key Qualitative Factors

Operating Environment

The government and the central bank implemented measures soon after the outbreak of the Israel-Hamas war to support the economy as well as the borrowers most affected by the war. Central bank intervention in the currency market, supported by its high foreign-exchange reserves, reduced volatility in the shekel. Israeli banks do not have high foreign-currency exposures, but the intervention supported wider macroeconomic stability. Both the government and the central bank have announced loan guarantee schemes and low-cost funding to support the most affected industries, such as hospitality and tourism.

We expect that support programmes, which are similar to those created during the pandemic, will be extended and adapted as necessary to support economic recovery from the initial impact of the war. They are generally supportive of banks' asset quality, in our view. However, we placed the operating environment score on a negative outlook to reflect the high level of uncertainty around the war's longer-term impact. For example, widening of the conflict would present downside risks to the operating environment, and this could put pressure on our assessment of IDB's risk and financial profile.

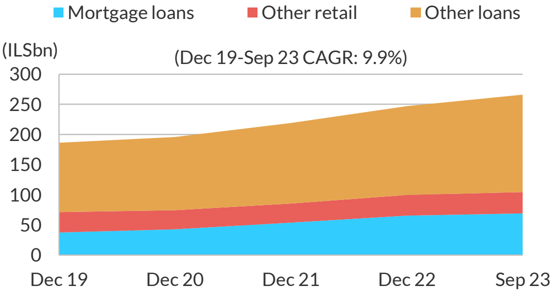
Business Profile

IDB is Israel's fourth-largest bank by total assets. It is publicly traded on the Tel Aviv Stock Exchange and widely held by the public, with no individual shareholders exercising significant control. IDB operates a universal banking model and provides a wide range of retail, commercial and private banking services. In recent years, IDB has grown its market share of mortgage loans in particular.

In addition to its main brand, Discount Bank, which had 100 branches at end-3Q23, IDB also offers banking services through its Mercantile Bank subsidiary, which had 73 branches. Mercantile has a particular focus on small business and retail banking. Mercantile has its own management team but operates on IDB's IT platform. Other subsidiaries include Cal, a credit card issuer; Discount Capital Markets, an investment banking entity that also holds equity stakes in domestic private equity funds and individual non-financial companies; and Tafnit, an asset manager for retail clients and institutions.

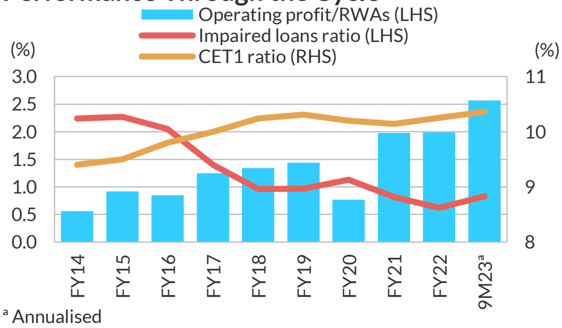
IDB was allowed in 2019 to retain majority control of Cal (71.8% of equity and 79% of voting rights at end-2022) even though its larger domestic peers were required to sell their credit card subsidiaries to promote stronger competition. However, this decision was reviewed in January 2023, and IDB is now required to reduce its shareholding by 2026. Cal represented about 6.4% of net income in 9M23, but its sale would not fundamentally alter IDB's strategy. Like the larger domestic banks, IDB would continue to receive income related to credit card distribution to its customers, mitigating some lost income, even if it does not own the card issuer.

Loan Book Breakdown



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

Performance Through the Cycle



[a] Annualised
Source: Fitch Ratings, Fitch Solutions, IDB

Risk Profile

Loan underwriting is generally conservative by global standards and similar to the other large Israeli banks. A high proportion of the loan book is secured at low loan-to-value (LTV) ratios – maximum 75% LTV for first-time buyer mortgage loans under regulations – and the collateral is subject to robust valuations. This limits banks' ability to weaken underwriting standards to grow market share. Loan loss allowances are high, due partly to conservative provisioning policies required by the regulator, and sector concentrations are also subject to regulatory limits.

Commercial loans for the construction of residential real estate are a significant, higher-risk lending segment. The Bank of Israel has temporarily allowed banks to increase their exposure to the construction and real estate sector (CRE) to 26% of total credit, but expects banks to lower this to the original 20% limit, beginning in 2026. Some of this exposure includes infrastructure projects with implicit or explicit government support.

Exposure to market risk consists primarily of interest rate and CPI risks in the banking book, and sensitivities to interest rate and CPI changes are subject to the bank's framework of risk limits as well as close regulatory oversight. CPI exposure is lower than peers' because of IDB's lower exposure to mortgage loans. Many mortgages in Israel have a component of the loan that is linked to the CPI. A 3% decrease in CPI would reduce capital by ILS544 million, or about 20bp of RWAs at end-9M23. Interest rate risk is appropriately managed, and the bank's sensitivity analysis indicates a parallel 1% increase in interest rates would only reduce capitalisation by about 11bp.

IDB is also exposed to market risk through Discount Capital's investments in domestic equity funds, which totalled ILS2.7 billion at end-3Q23, or 9% of CET1 capital. We do not expect equity investments to increase significantly from current levels. IDB's exposure to foreign exchange risk is higher than peers' given its larger US operations, but mismatches between foreign-currency assets and liabilities are well managed with derivatives when necessary.

Class-action lawsuits, often relating to the fair treatment of retail and SME customers, are a major operational risk for Israeli banks. IDB's 9M23 auditors' review included an 'emphasis of a matter' statement as some of these lawsuits are at too early a stage to assess the probable outcome. These lawsuits often involve multiple banks and so, in our view, are typically more reflective of sector-wide operational risks.

We view risk controls as robust, although we recognise downside risks as a result of the war. In particular, operational risk, including cyber risk, is elevated. In addition, IDB and other banks may be more exposed to market risks because of the potential impact of different war scenarios on the exchange rate, interest rates and inflation.

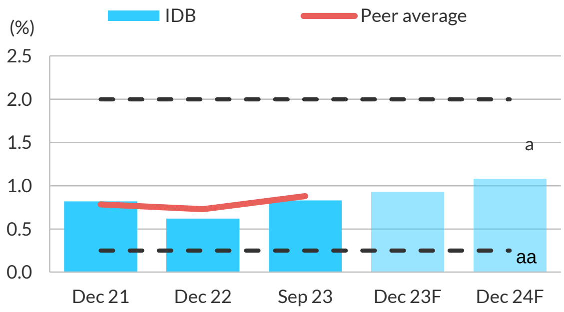
Financial Profile

Asset Quality

Lending to individuals represented 38% of credit exposure at end-September 2023 and was split equally between mortgage loans and other retail loans (including credit cards). CRE lending, which we view as a higher-risk segment, represented 22% of credit exposure. Like peers, IDB's CRE exposure is approaching regulatory concentration limits set specifically for the sector, which has a strong demand for credit driven by Israel's high population growth and resulting demand for new housing construction in particular.

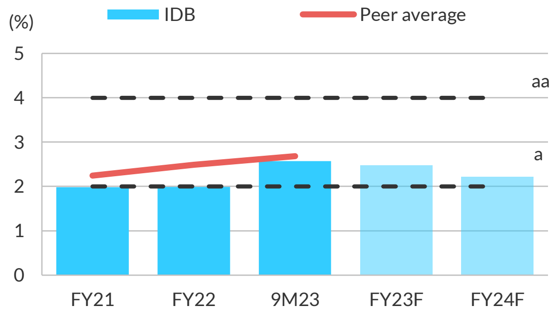
We expect IDB's through-the-cycled impaired loans ratio to be slightly higher than domestic peers' as long as it owns a credit card subsidiary.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

IDB's 3.5% net interest margin in 9M23 was at the higher end of domestic peers and has benefited from significant interest rate rises. The net interest margin was also strong on an international basis even in the low-interest-rate environment due to a large base of stable and low-cost current accounts. Profitability has also benefited from improved cost efficiency in recent years, and we expect the upside from higher interest rates and continued improvement in cost controls to support stronger risk-adjusted operating profit over the next two years.

Net interest income accounted for 68% of operating income in 9M23, although it is typically close to 60% and was elevated in 9M23 due to rising rates. IDB has a higher proportion of fee income than peers because it was not originally required to sell its credit card subsidiary. Like peers, IDB has been slow to pass on rate rises to depositors due to ample liquidity and its large proportion of stable current account deposits.

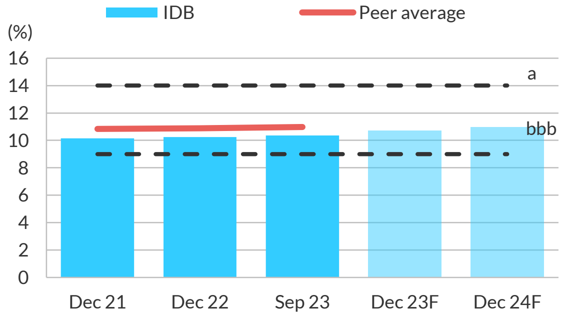
Capital and Leverage

IDB's regulatory capital requirements are 100bp lower than the two largest domestic peers, Bank Leumi Le-Israel B.M. (A/RWN) and Bank Hapoalim B.M. (A/RWN), due to its smaller size. The bank's conservative provisioning policies reduce the risk of a sharp decrease in asset quality reducing capitalisation. We expect the bank to maintain management buffers over regulatory requirements around current levels.

RWA density (RWAs/total assets: 68% at end-9M23) is high against international peers' average of closer to 40% as well as taking into consideration IDB's large on-balance-sheet liquidity buffer equivalent to about 25% of assets.

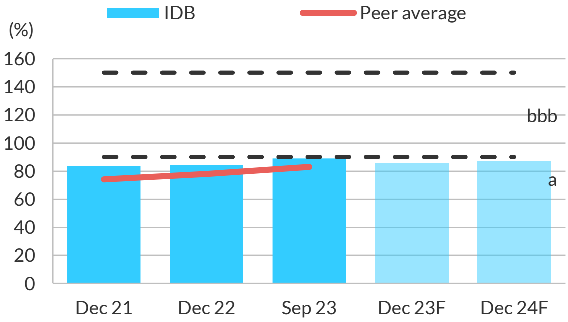
IDB's 6.4% leverage ratio is similar to peers' and comfortably above the current 4.5% regulatory requirement as well as the higher 5.0% requirement that will take effect in 2024.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

IDB's gross loans/customer deposits was 89% at end-9M23, of which 46% came from retail customers, and 42% from corporate customers. About half of the corporate deposits are from SMEs, which we view as particularly stable. Non-interest-bearing balances declined by end-9M23 as customers moved savings to interest-bearing accounts following the Bank of Israel's interest rate increases. We expect IDB's deposit stability and funding costs to continue to benefit significantly from its high proportion of low-cost current accounts.

Wholesale funding needs are limited because of IDB's low loan/deposit ratio, but may increase if customers spend the savings they accumulated during the pandemic and also choose to move savings to other banks or to higher-returning money market funds outside the banking sector. IDB has good access to domestic-currency wholesale funding as a frequent issuer in the local debt-capital market, and it also issued an USD800 million senior unsecured note to international investors in January 2023, which has further diversified its funding base.

Liquidity is sound, with an average liquidity coverage ratio of 136% in 3Q23. High-quality liquid assets of ILS77.6 billion represented 19% of total assets at end-9M23.

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 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 M&A 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 'a' category. Light-blue columns represent Fitch's forecasts. The peer average includes Bank Leumi Le-Israel B.M. (VR: a-), Bank Hapoalim B.M. (a-) and Mizrahi Tefahot Bank Ltd (a-).

Financials

Summary Financials

	30 Sep 23		31 Dec 22	31 Dec 21	31 Dec 20
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(ILSm)	(ILSm)	(ILSm)	(ILSm)
	Reviewed – unqualified (emphasis of matter)	Reviewed – unqualified (emphasis of matter)	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	2,194	8,390.0	8,707.0	6,540.0	5,907.0
Net fees and commissions	699	2,674.0	3,404.0	3,125.0	2,826.0
Other operating income	325	1,242.0	499.0	858.0	1,178.0
Total operating income	3,218	12,306.0	12,610.0	10,523.0	9,911.0
Operating costs	1,554	5,944.0	7,217.0	6,858.0	6,681.0
Pre-impairment operating profit	1,664	6,362.0	5,393.0	3,665.0	3,230.0
Loan and other impairment charges	302	1,154.0	467.0	-591.0	1,747.0
Operating profit	1,362	5,208.0	4,926.0	4,256.0	1,483.0
Other non-operating items (net)	n.a.	n.a.	421.0	90.0	73.0
Tax	483	1,846.0	1,806.0	1,516.0	549.0
Net income	879	3,362.0	3,541.0	2,830.0	1,007.0
Other comprehensive income	107	409.0	-734.0	-374.0	-418.0
Fitch comprehensive income	986	3,771.0	2,807.0	2,456.0	589.0
Summary balance sheet					
Assets					
Gross loans	69,502	265,776.0	246,887.0	218,860.0	195,952.0
- Of which impaired	578	2,209.0	1,520.0	1,797.0	2,207.0
Loan loss allowances	1,055	4,034.0	3,209.0	3,040.0	3,761.0
Net loans	68,447	261,742.0	243,678.0	215,820.0	192,191.0
Derivatives	3,885	14,857.0	11,420.0	5,522.0	6,400.0
Other securities and earning assets	14,121	53,998.0	47,003.0	46,285.0	44,832.0
Total earning assets	86,453	330,597.0	302,101.0	267,627.0	243,423.0
Cash and due from banks	15,050	57,552.0	65,713.0	59,638.0	42,936.0
Other assets	2,890	11,053.0	8,940.0	7,823.0	7,610.0
Total assets	104,394	399,202.0	376,754.0	335,088.0	293,969.0
Liabilities					
Customer deposits	78,073	298,552.0	292,410.0	261,253.0	226,462.0
Interbank and other short-term funding	6,684	25,558.0	19,115.0	12,534.0	13,268.0
Other long-term funding	4,243	16,225.0	12,308.0	13,219.0	8,392.0
Trading liabilities and derivatives	2,993	11,445.0	9,348.0	6,323.0	7,365.0
Total funding and derivatives	91,993	351,780.0	333,181.0	293,329.0	255,487.0
Other liabilities	4,977	19,031.0	18,095.0	17,759.0	16,946.0
Preference shares and hybrid capital	n.a.	n.a.	n.a.	1,852.0	1,809.0
Total equity	7,424	28,391.0	25,478.0	22,148.0	19,727.0
Total liabilities and equity	104,394	399,202.0	376,754.0	335,088.0	293,969.0
Exchange rate		USD1 = ILS3.824	USD1 = ILS3.519	USD1 = ILS3.15	USD1 = ILS3.222

Source: Fitch Ratings, Fitch Solutions, Israel Discount Bank

Key Ratios

	30 Sep 23	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	3.0	2.6	2.3	1.3	1.8
Net interest income/average earning assets	3.7	3.2	2.8	2.4	2.5
Non-interest expense/gross revenue	37.4	45.4	54.1	54.2	54.8
Net income/average equity	20.3	19.9	15.7	9.4	11.9
Asset quality					
Impaired loans ratio	0.9	0.8	0.5	0.7	0.6
Growth in gross loans	5.6	13.4	10.2	20.1	5.3
Loan loss allowances/impaired loans	125.6	111.9	155.7	143.1	132.9
Loan impairment charges/average gross loans	0.5	0.2	-0.1	0.5	0.2
Capitalisation					
Common equity Tier 1 ratio	10.1	9.9	10.0	10.0	10.1
Tangible common equity/tangible assets	6.3	5.2	4.9	4.8	5.6
Basel leverage ratio	5.8	5.4	5.2	5.2	5.6
Net impaired loans/common equity Tier 1	-2.9	-1.2	-3.4	-3.6	-2.5
Funding and liquidity					
Gross loans/customer deposits	93.5	90.2	89.0	87.4	98.1
Liquidity coverage ratio	138.0	118.0	125.0	133.0	121.0
Customer deposits/total non-equity funding	89.4	89.5	87.2	88.4	86.1
Net stable funding ratio	113.0	115.0	119.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Israel Discount Bank

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	a
Government ability to support D-SIBs	
Sovereign Rating	A+/ RWN
Size of banking system	Neutral
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	Positive
Liability structure	Positive
Ownership	Neutral

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

IDB's IDRs are driven by its GSR, which is in line with the domestic systemically important bank (D-SIB) GSR for Israel and reflects Fitch's view of a very high probability that Israel (A+/RWN) would provide support to IDB, if needed. Fitch believes that Israel has a strong ability to support its banking sector, and that the sovereign's propensity to support IDB is high, particularly given the bank's systemic importance in the country with a market share of about 15% of banking sector assets.

IDB's 'F1+' Short-Term IDR is the higher of two possible Short-Term IDRs that map to an 'A' Long-Term IDR. This is because we view the sovereign's propensity to support as more certain in the near term.

Environmental, Social and Governance Considerations

FitchRatings **Israel Discount Bank Limited**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit-Relevant ESG Derivation				ESG Relevance to Credit Rating
Israel Discount Bank Limited has 5 ESG potential rating drivers ➡ Israel Discount Bank 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

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

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

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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 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.