

Grupo Aval Acciones y Valores S.A.

Key Rating Drivers

Strong, Competitive Position: Grupo Aval Acciones y Valores S.A.'s (Grupo Aval) ratings are driven by the business and financial profile of its main operating subsidiary, Banco de Bogota (Bogota). Low double leverage, good cash flow metrics and a sound competitive position in multiple markets also support Grupo Aval's ratings. The holding strategy and operations continue to remain under Fitch Ratings' expectations after the BAC spin-off in March 2022.

Improving Consolidated Performance: On a consolidated basis, asset quality has improved, with a consolidated 90-days nonperforming loan (NPL) of 3.2% at September 2022. At June 2022, 6.8% of the total gross loans remained under the relief program, improving from pre-spin-off 10.3% at September 2021. The holding company's operating profit to estimated risk-weighted assets (RWA) ratio has returned to prepandemic levels (4.65% at June 2022) thanks to improving cost of risk and gains from the BAC spin-off.

Evolving Double Leverage: On an unconsolidated basis, Grupo Aval's double leverage is moderate (1.12x at June 2022 or 1.25x when including subordinated loans to subsidiaries). This ratio has remained close to Fitch's expectations after the BAC spin-off and is expected to return to levels below 1.20x in the short term.

Government Support Rating: As the focus of regulators is on protecting banks' depositors and not their shareholders, they would likely not support a bank holding company. Hence, Grupo Aval's GSR was assigned an 'ns' (no support) rating.

Limited Debt Rating: The ratings for Grupo Aval Limited's senior unsecured debt are aligned with those of Grupo Aval as this entity guarantees the senior bonds issued by the former.

Rating Sensitivities

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

- Grupo Aval's IDR would remain at the same level as Bogota's and would move in tandem with any rating actions on its main operating subsidiary. However, the relativity between these two entities' ratings could also be affected by a material and sustained increase in Grupo Aval's double leverage metrics being consistently above 1.2x, but also considering the holding company's liquidity position and its management. Furthermore, a change in the dividend flows from the operating companies or debt levels at the holding company that affects its debt coverage ratios could also be detrimental to its ratings.
- The ratings for Grupo Aval Limited's senior unsecured debt would move in line with Grupo Aval's IDRs.
- Grupo Aval's GSRs would be affected if Fitch changes its assessment of the government's ability and/ or willingness to support the bank or the holding company.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Grupo Aval's IDR would remain at the same level as Bogota's and would move in tandem with any rating actions on its main operating subsidiary.

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

Local Currency

Long-Term IDR	BB+
Short-Term IDR	B
Government Support Rating	ns

Sovereign Risk

Long-Term Foreign Currency IDR	BB+
Long-Term Local Currency IDR	BB+
Country Ceiling	BBB-

Outlooks

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

Applicable Criteria

[Bank Rating Criteria \(September 2022\)](#)

Related Research

[Latin American Banks 2023 Outlook \(December 2022\)](#)

[Colombian Banks Datawatch 2Q22 \(November 2022\)](#)

[LatAm Banks Semiannual Credit Tracker \(November 2022\)](#)

Financial Data

Grupo Aval Acciones y Valores S.A.

	Sept. 30, 2022	Dec. 31, 2021
Total Assets (USD Mil.)	63,082.9	91,778.5
Total Assets (COP Bil.)	285,896.2	366,903.9
Total Equity (COP Bil.)	31,138.1	39,471.6

COP – Colombian Peso.
Source: Fitch Ratings, Fitch Solutions, Grupo Aval

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- The ratings for Grupo Aval Limited's senior unsecured debt would move in line with Grupo Aval's IDRs
- Grupo Aval's GSRs would be affected if Fitch changes its assessment of the government's ability and/ or willingness to support the bank or the holding company.

Issuer Ratings (Including Main Issuing Entities)

Rating Level	Rating
Long-Term Foreign Currency IDR	BB+
Short-Term Foreign Currency IDR	B
Long-Term Local Currency IDR	BB+
Short-Term Local Currency IDR	B
Government Support Rating	Ns
Outlook	Stable

Source: Fitch Ratings

Debt Rating Classes — Grupo Aval Ltd.

Rating Level	Rating
Senior Unsecured Guaranteed Debt Issued by Grupo Aval Limited	BB+

Source: Fitch Ratings

Significant Changes

The Rating Outlook on the Long-Term IDRs is Stable. Despite operating environment (OE) pressures, which include a slowdown of GDP, high inflation, as well as domestic macro and political uncertainty, Grupo Aval's and its subsidiaries' core financial metrics have sufficient headroom to maintain its current ratings.

After BAC's spin-off, Fitch continues monitoring financial ratio variations that could take several months to become clear. However, should there eventually be a material change in Fitch's assessment of the capital adequacy and/or double leverage of Bogota or Grupo Aval during or after completion of the corporate reorganization, it could potentially trigger a negative rating action. This is not currently the baseline scenario.

Brief Company Summary

Franchise

Grupo Aval is Colombia's leading financial conglomerate (24.1% consolidated market share by loans at 3Q22), and it is also the largest conglomerate by deposits (25.2% market share) and net income (27.2% market share, not including Corficolombiana). It also has a subsidiary in Panama, MFG, which consolidated into under Banco de Bogota. The regional contribution at the consolidated level has shifted after BAC's spin-off from 62.7% of the total assets and 58% of the net income that came from Colombia at 4Q21 to 91.0% and 81.7%, respectively, at 2Q22 after the spin-off.

Grupo Aval acquired Banco de Occidente (BO), a medium-sized bank oriented to the public sector, in 1971. Shortly thereafter, Aval's main shareholder incorporated AV Villas (AV), a savings and loans company that would benefit from synergies with the shareholder's construction business. In 1981, the group acquired what is now its main operating company, Bogota. Finally, in 1997, the group acquired Banco Popular (BP), a consumer bank with strength in payroll lending, as well as Corficolombiana, an investment bank with energy, infrastructure, hospitality and agribusiness investments. Finally, the group has a strong position in pension funds through Porvenir, the largest pension and severance fund manager in Colombia.

Business Model

Grupo Aval has a diverse and stable universal banking business model based on intermediation and complementary financial services (trust, brokerage, pension fund management, merchant and investment banking and advisory, among others) through seven main subsidiaries. Grupo Aval's business model is founded on a multi-brand strategy supported by the individual strengths, licenses and market niches of each subsidiary.

Aval exploits specific areas of expertise and market positioning in its products, geographic locations and customer profiles, capitalizing on opportunities for synergy and transferring best practices among its business units.

Grupo Aval is organized into five core areas: finance, risk, corporate marketing, IT and legal. These areas are complemented by internal control and investor relations functions. The core areas consolidate reporting from each operating subsidiary, ensure compliance with local and foreign regulations and create guidelines and core policies that govern all businesses in a consistent manner. In addition, the board of directors actively participates in major decisions (e.g. credit and IT) when a coordinated effort is required.

Organizational Structure

Grupo Aval's organizational structure is simple. Control remains adequate and relies upon a mix of centralized strategic supervision and operating autonomy. It defines guiding principles and strategies for its subsidiaries and shareholders through multi-brand management, capital adequacy analysis, M&A execution, budget and control, risk management, shared services and compliance.

Management and Strategy

Management Quality

The holding company has a very streamlined organization. Key executives have ample expertise in the banking and financial services industries. Although Grupo Aval is tightly controlled by its main shareholder, each of its operating companies enjoys autonomy and has experienced and deep managerial teams.

Managers share in the overarching corporate culture and contribute their own experience. The same approach is applied to each new subsidiary. Local expertise is identified, retained and empowered and is held accountable for each subsidiary's performance. Changes in key management positions do not cause disruption, since all of them originate from within Grupo Aval's structure, while new generational turnover has been put in place.

Corporate Governance

Grupo Aval's board of directors comprises seven principal members (two of which are independent directors) and seven alternate members (two of which are likewise independent), with each serving a one-year term but eligible to be re-elected indefinitely. Grupo Aval is listed on the New York Stock Exchange and is subject to Sarbanes-Oxley regulations. There are three board committees: the compensation committee, the audit committee and the corporate affairs committee.

Strategic Objectives

Grupo Aval has a consistent, multibrand strategy. Each of its four banks in Colombia caters to specific segments and carries out its own commercial strategy that involves, at times, competing with sibling banks. Some synergies exist and are exploited whenever possible, such as direction of the bank's digital transformation and IT investments; however, the challenges of operating four largely independent banks are, according to management, offset by the group's ability to capture business that would otherwise be left to competitors.

Grupo Aval's main objectives are based on profitable, controlled growth through five main pillars: corporate risk control and management; innovation and technology; efficiency and economies of scale; human health risk resources; and sustainability.

The digital strategy is Grupo Aval's newest and one of its most important strategies. It is aimed at capturing synergies among the subsidiaries. Aval Digital Lab was consolidated as a strategic platform to lead Grupo Aval's digital transformation with the main purposes, according to management, will include generating value-added offers, reaching new customers, creating new products and markets and improving efficiency.

Execution

Grupo Aval has a sound and credible track record of adequate long-term planning and good execution. Budgets and short-term plans are largely achieved and, whenever changes occur, they are usually due to adjustments in light of events and/or changing circumstances.

Risk Appetite

Underwriting Standards

Broad risk management guidelines are set forth by the holding company; however, each bank has autonomy to set its own risk policies. Fitch views these risk policies as conservative given the use of detailed underwriting processes, sophisticated scoring models, conservative collateral requirements, well-defined credit approval limits and ongoing monitoring processes at each bank. Best practices are shared and market and operational risk policies are largely harmonized. Credit decisions are made at the bank level, following each institution's internal policies that include, among others, formal credit committees for corporate/middle market lending and automated scoring/credit factory processes for retail.

Grupo Aval's risk policies at the bank level tend to be quite conservative, with relatively low loan-to-value ratios, direct payroll deduction structures and low risk/volatility investments. Risk controls are deemed adequate, as each bank uses effective tools and has successfully maintained robust asset quality. The group's investment policy is likewise conservative, focusing on underlying credit quality, limited market risk/volatility and diversification.

Risk Controls

Each banking subsidiary is responsible for its respective credit decisions and risk management. However, there is oversight at the Grupo Aval level for implementing appropriate risk management controls, and the group has established upward loan reporting processes. The holding company's risk management staff meets on a weekly basis to discuss the subsidiaries' loan portfolios, developments in the industry, risks and opportunities.

To prevent excessive credit risk concentration at an individual, economic group, country or economic sector level, each Grupo Aval bank maintains updated indices to limit concentration. The exposure limit for a banking subsidiary to an individual client (or economic group) depends upon the risk profile of the client (or economic group), the nature of the risk of the debtor and each banking subsidiary's experience within a specific market or sector. Additionally, Grupo Aval closely follows recently issued regulations for financial conglomerates in Colombia, and the holding company is now being supervised by the Superintendence of Finance.

Operational risk policies of Grupo Aval and its subsidiary banks are aligned and comply with guidelines established by the Superintendence of Finance and the U.S. Sarbanes-Oxley Act of 2002.

Growth

Grupo Aval's strategy centers on profitable growth, and it avoids engaging in fierce competition, especially within riskier segments. In Fitch's opinion, stable growth has supported capitalization at the consolidated level and for each bank in recent years.

Aval's Assets and Loans size was affected after BAC's spin-off, with Gross loans and Total Assets decreasing by 23.32% and 22.08%, respectively, at September 2022 compared to December 2021. When compared to pro forma statements, the 12 months growth at September 2022 on loans and assets are 16.5% and 14.6%, respectively.

Market Risk

Grupo Aval monitors and oversees market risk at a consolidated level via reports from subsidiaries, which are in charge of managing their respective market risk. Grupo Aval on an unconsolidated basis does not have material market risk; however, the individual banks have substantial market risk, primarily resulting from their lending, trading and investment businesses. Primary market risk exposures for Grupo Aval include interest rate, foreign exchange rate, stock price variation and investment fund risks.

Summary Financials and Key Ratios

	Sept. 30, 2022		Dec 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
	9 Months - 3rd Quarter	9 Months - 3rd Quarter	Year End	Year End	Year End	Year End
	USD Mil.	COP Bil.	COP Bil.	COP Bil.	COP Bil.	COP Bil.
	Unaudited	Unaudited	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement						
Net Interest and Dividend Income	1,342	6,084.2	12,888.0	12,052.1	11,370.2	10,943.3
Net Fees and Commissions	475	2,154.1	5,611.4	5,093.4	5,455.3	4,839.6
Other Operating Income	2,127	9,641.9	12,780.9	12,295.0	4,529.2	4,699.6
Total Operating Income	3,945	17,880.2	31,280.3	29,440.5	21,354.8	20,482.5
Operating Costs	2,336	10,602.2	18,660.5	16,909.0	10,171.3	9,371.0
Pre-Impairment Operating Profit	1,610	7,278.0	12,619.8	12,531.5	11,183.5	11,111.4
Loan and Other Impairment Charges	414	1,860.3	4,110.5	6,060.0	3,755.1	3,797.3
Operating Profit	1,195	5,417.7	8,509.3	6,471.5	7,428.4	7,314.1
Other Non-Operating Items (Net)	358	1,624.0	11.0	3.7	23.4	20.1
Tax	385	1,745.1	2,851.8	1,843.7	2,086.3	2,149.6
Net Income	1,169	5,296.6	5,668.5	4,631.6	5,365.5	5,184.6
Other Comprehensive Income	(727)	(3,295.3)	452.8	(229.3)	701.7	(209.8)
Fitch Comprehensive Income	442	2,001.3	6,121.3	4,402.3	6,067.2	4,974.8
Summary Balance Sheet						
Assets						
Gross Loans	38,634	175,094.0	228,355.0	201,753.4	179,409.2	169,246.6
- of which impaired	1,247	5,653.1	6,630.7	7,187.5	5,841.8	5,188.5
Loan Loss Allowances	1,984	8,992.0	11,275.6	10,905.2	8,185.8	8,196.2
Net Loan	36,650	166,102.0	217,079.4	190,848.3	171,223.4	161,050.5
Derivatives	558	2,528.2	1,207.2	1,290.1	1,084.0	798.8
Other Securities and Earning Assets	11,086	50,240.6	59,770.5	52,498.3	38,832.0	38,964.8
Total Earning Assets	48,294	218,870.8	278,057.0	244,636.7	211,139.4	200,814.1
Cash and Due from Banks	3,975	18,013.9	36,642.8	34,025.5	30,117.2	28,401.3
Other Assets	10,814	49,011.5	52,204.1	44,233.7	37,575.9	30,459.8
Total Assets	63,083	285,896.2	366,903.9	322,895.9	278,832.6	259,675.2
Liabilities						
Customer Deposits	36,746	166,533.2	234,470.4	211,841.6	175,491.4	164,359.5
Interbank and Other Short-Term Funding	2,486	11,267.0	10,672.4	7,179.6	9,240.5	6,814.0
Other Long-Term Funding	13,030	59,053.4	62,609.9	51,445.1	45,604.1	44,398.0
Trading Liabilities and Derivatives	508	2,300.7	1,105.7	1,509.2	1,056.7	1,006.8
Total Funding and Derivatives	52,769	239,154.3	308,858.5	271,975.6	231,392.7	216,578.3
Other Liabilities	3,443	15,603.8	18,573.8	15,480.7	14,091.6	13,542.5
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	6,871	31,138.1	39,471.6	35,439.6	33,348.3	29,554.3
Total Liabilities and Equity	63,083	285,896.2	366,903.9	322,895.9	278,832.6	259,675.2
Exchange Rate		USD1 = COP4532.07	USD1 = COP3997.71	USD1 = COP3444.9	USD1 = COP3294.05	USD1 = COP3275.01

N.A. – Not available.

Source: Fitch Ratings, Fitch Solutions, Grupo Aval

Summary Financials and Key Ratios

	Sept. 30, 2022	Dec 31, 2021	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Ratios (annualized as appropriate)					
Profitability					
Operating Profit/Risk-Weighted Assets	4.1	3.7	2.7	3.5	3.8
Net Interest Income/Average Earning Assets	3.6	4.9	5.1	5.6	5.7
Non-Interest Expense/Gross Revenue	60.9	60.3	57.9	48.2	46.2
Net Income/Average Equity	21.7	15.3	13.5	17.3	19.5
Asset Quality					
Impaired Loans Ratio	3.2	2.9	3.6	3.3	3.1
Growth in Gross Loans	(23.3)	13.2	12.5	6.0	6.4
Loan Loss Allowances/Impaired Loans	159.1	170.1	151.7	140.1	158.0
Loan Impairment Charges/Average Gross Loans	1.3	1.9	3.0	2.4	2.5
Capitalization					
Common Equity Tier 1 Ratio (estimate)	10.3	10.7	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 (estimate)	N.A.	N.A.	11.4	12.1	11.2
Tangible Common Equity/Tangible Assets	9.6	8.1	8.3	9.2	8.3
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	N.A.	N.A.	(14.3)	(9.5)	(14.4)
Funding and Liquidity					
Gross Loans/Customer Deposits	105.1	97.4	95.2	102.2	103.0
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Total Non-Equity Funding	70.3	76.2	78.3	76.2	76.2
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not available.

Source: Fitch Ratings, Fitch Solutions, Grupo Aval

Key Financial Metrics – Latest Developments

Asset Quality

Each bank operates in a specific segment/business, which potentially leads to some asset/product concentration. However, in aggregate, the group has a well-diversified loan portfolio, with roughly 57.2% of loans granted to corporate customers and 42.8% to retail customers as of September 2022. Given its target market and portfolio mix, Banco de Bogotá's asset quality is among the strongest within Grupo Aval and among its domestic peers, while Banco Popular benefits from its payroll lending structure.

On a consolidated basis, 6.8% of the total gross loans remain under relief program at June, 2022, improving from pre-spin-off 10.3% at September 2021. This includes the first wave and the second wave (PAD program). Asset quality has improved, with consolidated 90-days NPL of 3.2% at September 2022; Fitch expects the NPL ratio to either remain stable or deteriorate slightly in 2023 as the remaining loans under relief programs mature as well as the increasing retail loans from 1H22. Loan loss reserves are adequate at 1.59x 90-day past-due loans, which is above the pre-pandemic metric.

Earnings and Profitability

The holding company's consolidated operating profit to estimated RWA ratio has returned to pre-pandemic levels (4.05% at September 2022) thanks improving cost of risk and gains from BAC-spin-off. Fitch expects this ratio to return to levels close to those from the pre-pandemic years, in the 3.0%-3.5% range, due to lower loan growth in 2023 and stable NIM. LLC should also return to pre-pandemic levels, with loans and securities impairment charges/Pre-impairment Op. Profit ratio of 35% (from a record low of 25% at 2Q22).

Developments involving allegations stemming from the Odebrecht scandal in Colombia continue for Episol, Corficolombiana and Grupo Aval in various instances. Fitch will follow up on these developments and the remainder of the process.

Capitalization and Leverage

Grupo Aval's consolidated ratio of tangible common equity to tangible assets improved in 2022, following BAC spin-off. As of September, 2022, this ratio was 9.6%, above an 8.5% average for 2018-2021. In Fitch's view, consolidated capitalization has been positively impacted following the spin-off. Fitch expects improvement in capitalization to continue due to slower overall organic growth in 2023, stable NIM and improving results from the bonds portfolio.

Funding and Liquidity

Deposits fund about two-thirds of the consolidated balance sheet and mostly comprise term deposits and savings. Other funding sources include interbank funding and long-term bonds (around 14.1% of assets at September 2022). Given ample access to capital markets in Colombia and abroad and the need to better match assets and liabilities, Grupo Aval's banks are increasingly tapping capital markets, especially through Banco de Bogotá.

Total funding includes, in addition to customer deposits, interbank borrowing and overnight funds, borrowings from banks and others, bonds issued and borrowings from development entities.

Debt at Grupo Aval Limited is serviced with interest income on loans to subsidiaries and cash and cash equivalents. To date, Grupo Aval Limited has not required cash from Grupo Aval Acciones y Valores S.A. to fulfil its obligations. The main sources of cash to pay debt and debt service at Grupo Aval have been dividend income from its subsidiaries and returns on its cash and cash equivalents.

Unconsolidated Leverage, Debt Service and Double Leverage

Grupo Aval's unconsolidated has a very simple balance sheet, as it basically has cash and investments on one side and loans (unsecured debt) and capital on the other. Revenues are almost exclusively dividends and income by participation method, with a small contribution from the yield of cash investments and other fees and commissions billed to the operating companies for the coordination and planning services provided by the holding company. Aval maintains enough cash on hand to cover its outstanding debt, minimizing the risk of declining dividend inflows.

When combined, Grupo Aval Acciones y Valores S.A. and Grupo Aval Ltd. had COP1,767.2 billion of total liquid assets, a total gross indebtedness of COP 6,260.7 billion and a net indebtedness of COP 4,493.5 billion as of Sept. 30, 2022. In addition to liquid assets, Grupo Aval Ltd. has Ps 2,397.7 billion in investments in AT1 instruments.

On an unconsolidated basis, Grupo Aval's double leverage is moderate (1.12x at September 2022 or 1.26x when subordinated loans to subsidiaries). This ratio remains close to Fitch's expectations after BAC spin-off and is expected to return to levels below 1.20x in the short to midterm. Aval and its shareholder plans include maintaining a controlled double leverage, below the 120% threshold. Solid internal capital generation should underpin Grupo Aval's double leverage and debt coverage ratios. Nevertheless, these metrics could be negatively affected if the banks grow too fast or the entity engages in a new merger or acquisition without a corresponding increase in capital, which Fitch does not expect in the short term.

Grupo Aval has liquidity levels and counts on important interest income, both in USD, making the entity able to fulfil its debt service and lowering the need of income from dividends to repay its obligations. In Fitch's opinion, Grupo Aval's conservative liquidity management is seen as a positive factor when analysing its stand-alone unconsolidated leverage and profile.

Environmental, Social and Governance Considerations

Credit-Relevant ESG Derivation

Grupo Aval Acciones y Valores S.A. has 5 ESG potential rating drivers			Overall ESG Scale	
<ul style="list-style-type: none"> Grupo Aval Acciones y Valores 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. 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)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale	How to Read This Page ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant. The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.
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)

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). Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5	
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4	
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3	
Employee Wellbeing	1	n.a.	n.a.	2	
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1	

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale	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	
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	

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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