

Macquarie Group Limited

Key Rating Drivers

Robust Risk Management: Macquarie Group Limited's (MGL) Issuer Default Ratings (IDRs) and Viability Rating (VR) are aligned with the consolidated risk profile of the group, which in turn reflects robust risk management, strong liquidity management and solid capitalisation. These factors offset a level of complexity in the business model and a higher risk appetite than most retail-oriented Australian banks.

Lower Than Bank Subsidiary: MGL's ratings are a notch lower than that of its bank subsidiary, Macquarie Bank Limited (MBL; A/Negative/a), to reflect the Australian regulatory focus on depositor protection, which results in regulatory restrictions on dividends and liquidity transfers from MBL. MGL has sizeable non-banking operations that are subject to lower regulatory scrutiny and generally have weaker asset quality than MBL. However, returns from this business are higher and some revenue sources, such as base fee income, are more stable.

Coronavirus Risks Drive Outlook: The high level of uncertainty and significant downside risk to our base-case economic outlook drove the revision of the Outlook on the Long-Term IDR to Negative. The factor outlooks for operating environment, asset quality and earnings have also been revised to negative to reflect these risks.

Centralised Risk Oversight: Central risk oversight through a dedicated group has supported a strong risk-management culture throughout the operating businesses. This helps to offset the group's larger risk appetite than most other Australian banking groups.

Asset Quality, Earnings Pressured: MGL's business model and greater commercial lending exposure mean asset quality is likely to be susceptible to weakening through the current downturn. Large non-loan exposures appear to be of good quality, but are also at risk in the current environment. MGL's earnings face headwinds, with low interest rates, slow growth and higher impairment charges likely. Non-interest income may provide some resilience through sources such as base fees, while some trading income benefits from market volatility.

Solid Capital, Liquidity Buffers: MGL has a capital buffer of AUD7 billion, or 40% above the regulatory minimum, which leaves it well placed to withstand the downturn at the current rating. The group has conservative liquidity management, helping offset a higher reliance on wholesale funding relative to peers. MGL's double leverage was 110% at end-March 2020, at the group's limit. This is an important consideration when equalising MGL's ratings with the consolidated group assessment.

Rating Sensitivities

Economic Downside Case: MGL's VR and Long-Term IDR may be downgraded if the economic downturn significantly exceeds our base case expectations. We would expect to lower our operating environment, asset quality and earnings scores under this scenario. Ratings may also be downgraded if the group's risk management framework and strong liquidity management are weakened.

Double Leverage Increases: MGL's ratings may be downgraded to below our assessment of the consolidated group risk profile if common-equity double leverage increases to above 120% for a sustained period. However, we do not expect this to occur.

Global Economy within Base Case: MGL's Long-Term IDR is likely to be affirmed and the Outlook revised to Stable if Fitch's base case for the global economy occurs. We would expect to revise the factor outlook for the operating environment to stable under this scenario, which in turn would likely result in the asset quality and earnings factor outlooks also returning to stable.

Ratings

Foreign Currency

Long-Term IDR	A-
Short-Term IDR	F2

Viability Rating	a-
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

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

Outlooks

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

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Macquarie Group Limited - Ratings Navigator \(June 2020\)](#)

[Macquarie Bank Limited - Ratings Navigator \(June 2020\)](#)

[Macquarie Bank Limited \(June 2020\)](#)

[Global Economic Outlook: Crisis Update May 2020 \(May 2020\)](#)

[Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update \(April 2020\)](#)

[Australia Steps Up Economic Support, Banks to Still Feel Pain \(March 2020\)](#)

[Australian Coronavirus Response Highlights Support for Banks \(March 2020\)](#)

[Coronavirus Adds Pressure to Australia, New Zealand Bank Earnings \(March 2020\)](#)

Analysts

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Ratings Navigator

Macquarie Group Limited



Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
aaa										aaa	AAA	AAA
aa+										aa+	AA+	AA+
aa										aa	AA	AA
aa-										aa-	AA-	AA-
a+		↓								a+	A+	A+
a	█									a	A	A
a-	█									a-	A-	A- Negative
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	NF	D or RD

Significant Changes

Pandemic Impact

The factor outlooks on MGL's operating environment, asset quality and earnings scores have all been revised to negative to reflect the high level of economic uncertainty created by the pandemic and the still-significant downside risks to our base-case assumptions. Other factors have been left unchanged with stable factor outlooks as the pandemic impact is expected to be lower or there are sufficient buffers at the current scores to withstand a downturn that is more severe than our base case.

Bar Chart Legend	
Vertical bars – VR range of Rating Factor	
Bar Colors – Influence on final VR	
█	Higher influence
█	Moderate influence
█	Lower influence
Bar Arrows – Rating Factor Outlook	
↑	Positive
↓	Negative
↕	Evolving
□	Stable

Company Summary

Pandemic Impacts Operating Environment

MGL is the most internationally active among the Australian banking groups that Fitch rates. North America (primarily the US), Europe and Asia are the main non-domestic markets. Prudential regulation in Australia is focused on the protection of bank depositors rather than group creditors, which is a key reason for the one notch difference in MGL's (a+) and MBL's (aa-) operating environment mid-points.

The factor outlook revision to negative on the operating environment scores follow deterioration in most of the markets the group operates in and reflects the significant downside risk posed by the economic downturn induced by the response to the coronavirus pandemic. We would expect to revise this outlook back to stable if our base case emerges.

No Change to Business Model Likely

MGL is the listed non-operating holding company parent of the Macquarie group. Its three main subsidiaries are MBL, which undertakes the group's more traditional banking operations, and Macquarie Financial Holdings Pty Ltd (MFHL) and Macquarie Asset Management Holdings Pty Limited, which undertake the group's non-banking operations. The group offers a full suite of banking services in Australia while targeting niches offshore.

MGL has four broad operating divisions and its operations are largely client focused. 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. The business model is unlikely to change in the short-term despite the pandemic.

MGL has greater exposure to capital-market businesses than other retail-focused Australian banking groups. The group's large offshore operations – about 67% of MGL's revenue was generated outside Australia in the financial year ended March 2020 (FY20) – mean profitability is affected by changes in exchange rates. All operating groups, except BFS, generate most of their revenue overseas. BFS generates all revenue domestically.

Consistent Strategy Targeting Niches

MGL's management has a high degree of depth, with senior management tenure with the group tending to be long. Fitch believes this is likely to continue and has played a part in maintaining the consistent group culture. The management team is also held in high regard by market participants.

MGL's strategy of targeting niches where it has expertise and competitive advantages rather than focusing on mass-market segments has resulted in reasonable market shares in most of its key operating segments, but also increases the complexity of the group operations.

The nature of MGL's operations means it can be acquisitive, although the group has shown itself to be 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 sells, restructures or places into run-off any business that does not meet return hurdles.

Strong Risk Management

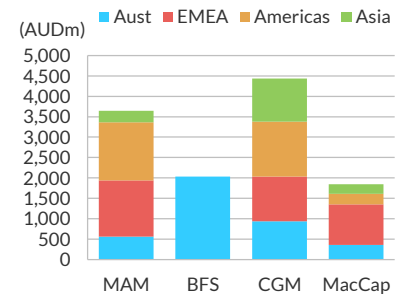
MGL has a bigger risk appetite than most retail-oriented Australian banking groups, but manages this well through a strong, consistent and proven risk management culture. This approach is consistent across the group.

Worst-case scenarios are used to analyse exposures and proposed businesses. MGL will manage out of exposures or not proceed with businesses if losses threaten the group's viability under these worst-case scenarios. This should leave the group reasonably positioned to withstand the economic downturn.

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 the MBL section below.

Geographic Diversity

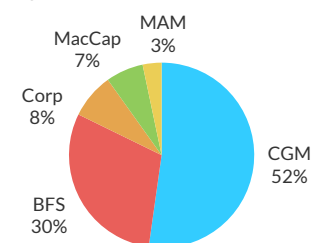
FY20 revenue by region



Source: Fitch Ratings, Fitch Solutions, MGL

MGL Segment Assets

FYE20



Source: Fitch Ratings, Fitch Solutions, MGL

Summary Financials and Key Ratios

	Year end (USDm) Audited - unqualified	31 Mar 20 Year end (AUDm) Audited - unqualified	31 Mar 19 Year end (AUDm) Audited - unqualified	31 Mar 18 Year end (AUDm) Audited - unqualified	31 Mar 17 Year end (AUDm) Audited - unqualified
Summary income statement					
Net interest and dividend income	1,148	1,859.0	1,760.0	2,038.0	2,280.0
Net fees and commissions	3,009	4,873.0	4,386.0	3,840.0	3,446.0
Other operating income	3,251	5,265.0	4,096.0	3,810.0	3,617.0
Total operating income	7,408	11,997.0	10,242.0	9,688.0	9,343.0
Operating costs	4,883	7,907.0	7,747.0	6,626.0	6,408.0
Pre-impairment operating profit	2,526	4,090.0	3,592.0	3,062.0	2,935.0
Loan and other impairment charges	571	924.0	527.0	289.0	345.0
Operating profit	1,955	3,166.0	3,065.0	2,773.0	2,590.0
Other non-operating items (net)	178	288.0	1,899.0	691.0	514.0
Tax	450	728.0	879.0	883.0	868.0
Net income	1,683	2,726.0	2,988.0	2,581.0	2,236.0
Other comprehensive income	689	1,116.0	276.0	-20.0	-308.0
Fitch comprehensive income	2,372	3,842.0	3,264.0	2,561.0	1,928.0
Summary balance sheet					
Assets					
Gross loans	58,800	95,223.0	78,429.0	82,060.0	78,098.0
- Of which impaired	1,229	1,991.0	1,935.0	630.0	1,071.0
Loan loss allowances	683	1,106.0	618.0	470.0	874.0
Net loans	58,117	94,117.0	77,811.0	81,590.0	77,224.0
Interbank	n.a.	n.a.	n.a.	n.a.	n.a.
Derivatives	28,162	45,607.0	14,390.0	12,937.0	12,106.0
Other securities and earning assets	44,535	72,121.0	59,779.0	56,437.0	56,117.0
Total earning assets	130,814	211,845.0	151,279.0	150,964.0	145,447.0
Cash and due from banks	6,000	9,717.0	8,643.0	9,569.0	9,317.0
Other assets	21,143	34,240.0	40,685.0	30,792.0	28,113.0
Total assets	157,958	255,802.0	197,757.0	191,325.0	182,877.0
Liabilities					
Customer deposits	41,584	67,342.0	56,191.0	59,412.0	57,708.0
Interbank and other short-term funding	1,441	2,334.0	4,838.0	15,440.0	17,072.0
Other long-term funding	53,287	86,295.0	62,541.0	56,572.0	53,708.0
Trading liabilities and derivatives	27,135	43,943.0	20,774.0	22,349.0	18,599.0
Total funding	123,447	199,914.0	144,344.0	153,773.0	147,087.0
Other liabilities	18,709	30,298.0	36,546.0	16,835.0	15,652.0
Preference shares and hybrid capital	2,596	4,204.0	4,326.0	2,937.0	3,269.0
Total equity	13,206	21,386.0	17,966.0	17,780.0	16,869.0
Total liabilities and equity	157,958	255,802.0	197,757.0	191,325.0	182,877.0
Exchange rate		USD1 = AUD1.619433	USD1 = AUD1.411034	USD1 = AUD1.30463	USD1 = AUD1.3082

Source: Fitch Ratings, Fitch Solutions, MGL

Summary Financials and Key Ratios

	31 Mar 20	31 Mar 19	31 Mar 18	31 Mar 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	n.a.	n.a.	n.a.
Net interest income/average earning assets	1.0	1.1	1.3	1.6
Non-interest expense/gross revenue	74.1	75.2	71.8	71.2
Net income/average equity	13.8	17.1	15.1	14.2
Asset quality				
Impaired loans ratio	2.1	2.5	0.8	1.4
Growth in gross loans	21.4	-4.4	5.1	-4.5
Loan loss allowances/impaired loans	55.6	31.9	74.6	81.6
Loan impairment charges/average gross loans	0.7	0.3	0.1	0.3
Capitalisation				
Common equity tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	6.8	7.9	8.8	8.7
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	5.2	8.6	1.0	1.2
Funding and liquidity				
Loans/customer deposits	141.4	139.6	138.1	135.3
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	40.6	41.3	41.0	41.5
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, MGL

Key Financial Metrics – Latest Developments

Asset Quality Likely to be Under Pressure

We expect MGL's asset quality to deteriorate over the next two years as a result of the economic slowdown, which drives the negative outlook on the factor score of 'a-'. MGL has greater exposure to commercial and non-loan assets than most domestic peers, which may leave its asset quality more susceptible to deterioration than those peers.

Loans made up only 37% of MGL's assets at end-March 2020, with stage 3 loans accounting for 2.1%. This ratio can be somewhat volatile given the nature of MGL's loan exposures - residential mortgages made up 60% of the loan book, with the remainder split across a range of sectors. Some exposures, such as those in the MacCap operations, can be large and contribute to this variability. Stage 3 loans/gross loans for MGL's corporate, commercial and other lending (which made up nearly 20% of total loans) were over 4% at FYE20, highlighting this point. Loan-loss allowance coverage of stage 3 loans increased to 56% by FYE20 from 32% at FYE19 to reflect the risks facing asset quality. Expected credit loss provisioning levels for all assets rose to AUD1.5 billion from AUD1 billion in FY20.

Non-loan financial asset exposures are generally of better quality than the loan exposures. Stage 3 non-loan financial asset exposures as a proportion of the total were just 0.9% at FYE20, with over 80% classified as investment grade on MGL's internal scale (FYE19: 1% and 70% respectively). We expect the quality of these exposures to also deteriorate as a result of the downturn, but the stronger starting point and nature of most of the exposures (cash, cash collateral and reverse repos, and margin money and settlement assets make up the bulk) mean significant weakening is less likely than in the loan portfolio.

The bulk of the remaining assets consisted of derivative exposures (AUD46 billion) at FYE20. Many of these are centrally cleared and security is held for exposures with lower rated counterparties. Trading assets were the other large asset class at AUD17 billion and consisted mainly of government debt securities (AUD6.8 billion), listed equities (AUD4.4 billion) and commodities (AUD3.8 billion). The latter two categories appear most susceptible to weakening in the downturn.

Earnings Likely to Display Some Variability

We expect MGL's earnings, as with other Australian banking groups, to face pressure as a result of the economic downturn, which has resulted in a revision to the outlook on the earnings factor score of 'a-' to negative from stable. Low interest rates, subdued loan growth and higher impairment charges all contribute to this pressure.

The earnings of MGL's non-banking operations are more volatile than MBL's earnings, which is a contributor to MGL's score being one notch lower than MBL's.

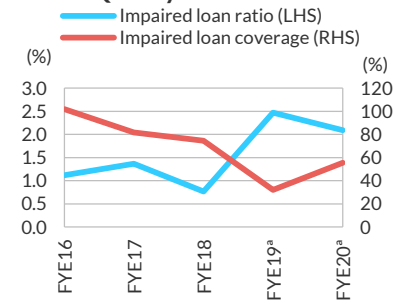
MGL generates a much higher proportion of income from non-interest sources (83% in FY20) relative to most domestic peers. Much of this comes in the form of net fee and commission income (46% of revenue in FY20), with net trading income the next largest source (27%). Some of the fee income, such as base fees from the asset management business, should be reasonably stable through the current economic downturn as it is largely tied to the volume of assets under management. Deal-related fee income in MacCap and trading income may be more variable, although some parts of these businesses benefit from market volatility.

Fitch primarily focuses on the operating profit/average total assets metric when assessing MGL's earnings as the group is not required to calculate risk-weighted assets under Australia's regulatory framework. MGL also regularly generates significant non-operating revenue through the sale of assets and businesses, and Fitch considers the complimentary metric of return on equity when analysing MGL's earnings to capture this. Both metrics compare favourably with those of most domestic and international peers.

Sound Capital Buffers

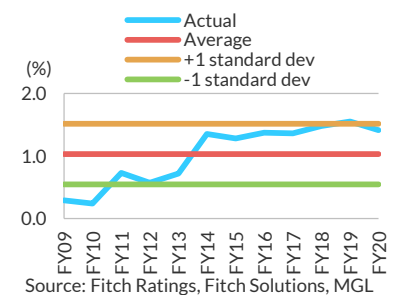
MGL maintains a large capital surplus relative to regulatory minimums, reflecting its sound capital management, and this leaves it reasonably positioned to withstand the economic downturn. We expect the group's surplus capital position to come under some pressure due to weaker asset quality and the subsequent earnings impact, although the buffers are likely to

Asset Quality



^a Stage 3 loans, impaired loans previously
Source: Fitch Ratings, Fitch Solutions, MGL

MGL Earnings Volatility



Source: Fitch Ratings, Fitch Solutions, MGL

remain sufficient to support the current capitalisation and leverage score of 'a' under our base case. Capitalisation will also be supported by a reduction in dividend payments for 2H20 and the issuance of shares to meet employee share payments – the latter is normally satisfied by the group buying shares on market.

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. The minimum Tier 1 requirement was AUD17.7 billion at FYE20, with MGL holding AUD7.1 billion surplus to this (FYE19: AUD15.7 billion requirement and AUD6.1 billion surplus). These minimums assume an 8.5% Tier 1 ratio for the banking group using the Australian Prudential Regulation Authority’s (APRA) Basel III rules. MGL calculates that this surplus increases to AUD9.2 billion on a globally harmonised basis. Most of this surplus is held by MBL.

MGL’s tangible common equity/ tangible assets decreased to 6.8% by FYE20 (FYE19: 7.9%) due to the strong asset growth during the year. Common-equity double leverage has risen to a moderate level (110% at FYE20) – MGL limits this to 110%.

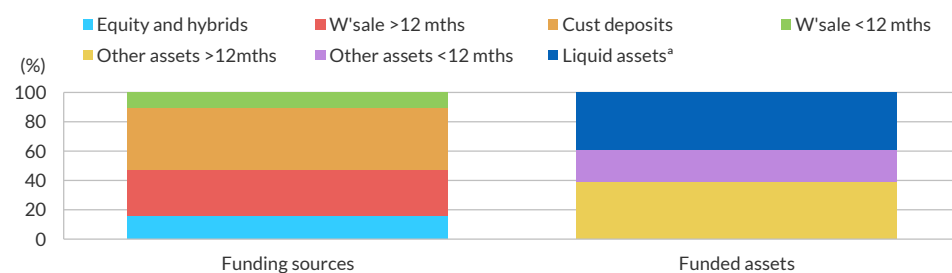
Strong Liquidity Management Offsets Wholesale Funding Risks

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 longer-term nature of the asset profile in the non-bank relative to MBL means the group funds the non-bank via capital and mainly longer-term wholesale funding.

Actions by the authorities to ensure there is sufficient liquidity available for financial institutions combined with MGL's conservative approach to liquidity management mean the group is well-positioned to withstand any further funding market downturns should they emerge. MGL’s liquidity management policy for its non-banking operations is set so that is able to meet all of its liquidity obligations over a 12-month period assuming no access to funding markets. It also drives diversity by tenor, currency, investor and product within the wholesale funding portfolio.

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 are the only entities within the group that issue debt instruments to external investors as the other entities are internally funded.

MGL Funded Balance Sheet

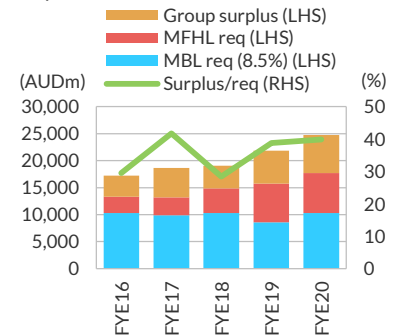


^aIncludes self-securitized mortgages in MBL
Source: Fitch Ratings, Fitch Solutions, MGL

The non-bank operations have senior wholesale funding maturities of AUD3.1 billion during FY21, which are offset by cash and liquid assets of AUD5.3 billion at FYE20, as well as AUD12.2 billion on deposit with MBL. The deposit reflects excess funding provided to MFHL from MGL and is an important source of liquidity given MFHL does not have access to central bank repurchase facilities.

MGL Capitalisation

As per APRA rules



Source: Fitch Ratings, Fitch Solutions, MGL

Sovereign Support Assessment

Support Rating Floor		Value	
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)		A+ to A-	
Actual country D-SIB SRF		A	
Support Rating Floor:		NF	
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem		✓	
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance			✓
Liability structure of bank			✓
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

MGL's Support Rating and Support Rating Floor reflect Fitch's view that support from Australian authorities cannot be relied upon. The agency believes that if support were provided to the group it would most likely be through the regulated bank, MBL.

Environmental, Social and Governance Considerations

FitchRatings Macquarie Group Limited

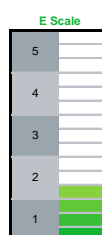
Banks
Ratings Navigator

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)

General Issues	E Score	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

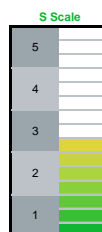
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

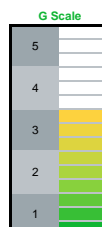
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
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; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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