FitchRatings

Banco Consorcio

Key Rating Drivers

Banco Consorcio's Issuer Default Ratings (IDRs) are driven by its VR of 'bbb' and do not factor in any extraordinary support from its parent, Consorcio Financiero S.A. However, the bank's IDRs are currently at the same level as would be derived from the institutional support approach, given that it remains a core subsidiary for its parent.

Fitch Ratings' assessment of the bank's business profile, which includes a moderate, albeit growing, domestic franchise, is positively influenced by group benefits and risks to arrive at a 'bbb' business profile score above the implied 'bb' score. The bank benefits significantly from the strong franchise of its ultimate parent Consorcio Financiero S.A., the largest insurer group in Chile with a strong leading franchise that features a roughly 17% market share in total assets and retained premiums, as of Dec. 31, 2021, improving the bank's access to a very large customer and products base, which could help the bank achieve its growth and diversification targets over the long term. Banco Consorcio had a loan market share of 2.3%, excluding the system's operations abroad, as of Dec. 31, 2021, with its operations highly concentrated in the corporate and real estate segments.

As of February 2022, the bank's non-performing loan (NPL) ratio improved to 1.29% from 1.69% at YE20 and loan loss reserve coverage (including additional reserves) rose to a sound 211%. The bank's NPL ratio has deteriorated above its historic average since 2019, due to a few specific cases, and remains relatively high but with a declining trend. Fitch also considers the loan portfolio's high level of collateralization, which partly mitigates its high concentration by debtor and in the real estate sector. The balance sheet's non-loan exposures are high but the bank has reduced its holdings of corporate securities and replaced them with Central Bank and Treasury notes.

Banco Consorcio's operating profit to risk-weighted assets (RWA) ratio is adequate and commensurate with its rating level (four-year average: 1.49%). The bank's profitability has been based on strong portfolio growth, good cost efficiency and adequate loan quality. Fitch expects profitability to remain within historical levels in 2022.

Banco Consorcio's capitalization level is strong and compares favorably with its domestic peers. However, the Common Equity Tier I (CET1) ratio decreased to 10.5% in December 2021 due to the bank's strong loan growth. In order to restore capital ratios, the bank plans to reduce the growth of its loan portfolio in 2022. As of February 2022, the CET1 ratio improved to 13.37% due to the impact of the first adoption of IFRS 9.

The diversification of its funding structure continues to be one of Banco Consorcio's main challenges, due to its reliance on wholesale financing and the still small proportion of demand deposits. Deposit concentration is high, given the bank's size and corporate focus. As of December 2021, the loans to deposits ratio was 126.2%, which is commensurate with the bank's rating. The liquidity coverage ratio reached a sound 257% as of December 2021, one of the highest among local banks.

The Shareholder Support Rating (SSR) reflects the potential support from its parent company, Consorcio Financiero S.A., if needed. Fitch believes the parent's propensity to provide support to Banco Consorcio is high given the bank's important role in the group providing core products and complementary financial services, as well as the potential implications for the parent should the bank default, given the cross-default clauses that exist in Consorcio Financiero's debt instruments.

Banks
Universal Commercial Banks
Chile

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Local Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Viability Rating	bbb
Shareholder Support Rating	bbb
National Rating	
National Long-Term Rating	AA–
National Short-Term Rating	N1+
Sovereign Risk (Chile)	
Long-Term Foreign-Currency IDR	A–
Long-Term Local-Currency IDR	A–
Country Ceiling	A+
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Chilean Banks: 1H22 Review and Update (February 2022)

Fitch Affirms Banco Consorcio's IDR at 'BBB'; Outlook Stable (May 2022)

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Ratings Sensitivities

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

- Downward pressure on Banco Consorcio's Viability Rating (VR) could stem from lower liquidity levels or a higher risk appetite that results in significantly weaker asset quality, which affects the bank's profitability (operating profit/RWA assets falling and remaining below 1%) and, ultimately, its capitalization, with its CET1 ratio falling and remaining consistently below 10%. In addition, the downward potential of Banco Consorcio's IDRs and National Rating (NR) is limited given that these are at the same level that could be achieved based on parent support.

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

- A potential VR upgrade for Banco Consorcio is limited given its relatively moderate domestic franchise.
- An upgrade in the bank's SSR could be driven from a similar rating action for its ultimate parent's ratings.

Other Debt and Issuer Ratings

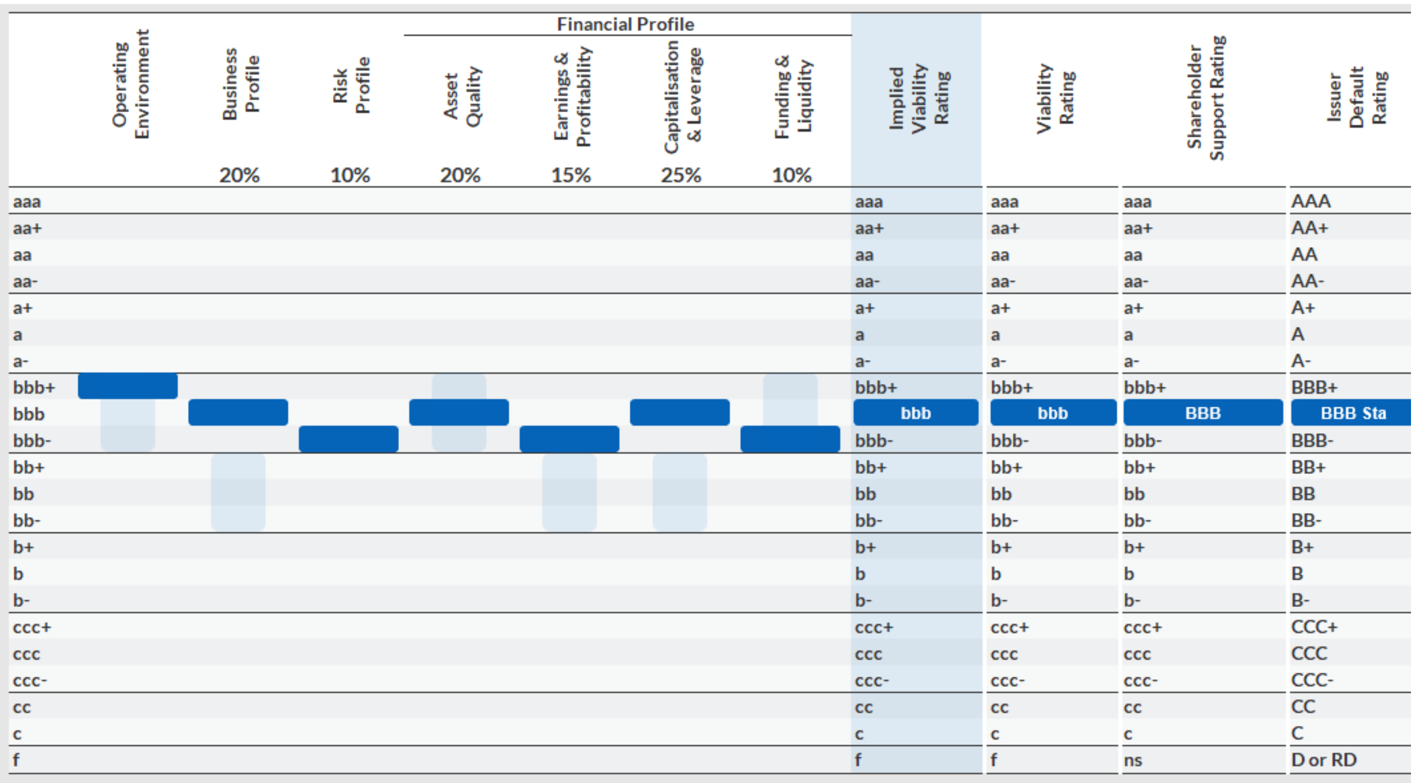
Senior unsecured debt ratings are at the same level as Banco Consorcio's National Ratings, as the likelihood of default of the senior debt is the same as that of the issuer.

Fitch rates Banco Consorcio's subordinated debt two notches below its National Long-Term IDR. The two-notch difference considers the loss severity due to its subordinated nature (after default), and no additional notching for non-performance risk given that the subordinated debt absorbs losses after the point of non-viability.

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

- The ratings of Banco Consorcio's senior and subordinated debt will move in line with any changes to the bank's National Long Term Rating.

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 Business Profile score of 'bbb' has been assigned above the 'bb' category implied score due to the following adjustment reasons: Group benefits and risks (positive).
- The Earnings and Profitability score of 'bbb-' has been assigned above the 'bb' category implied score due to the following adjustment reasons: Historical and future metrics (positive).
- The Capitalization and Leverage score of 'bbb' has been assigned above the 'bb' category implied score due to the following adjustment reasons: Capital flexibility and ordinary support (positive).

Company Summary and Key Qualitative Factors

Business Profile

Banco Consorcio is a medium-sized universal bank 100% owned by Consorcio Financiero, one of the most important financial conglomerates in Chile, with a leading franchise in the insurance business. Consorcio Financiero is the largest insurance group in the country by equity and total assets, with 16.2% market share in the insurance business as of September 2021. The strength of the Consorcio brand and the more than 1 million client base in the insurance sector, gives the bank the possibility to target those clients with minor marketing efforts.

The bank is an important figure within the group; as of December 2021, Banco Consorcio was the 10th largest Chilean bank by total loans with a 2.3% market share within the domestic system. Its target remains to continue to grow and achieve a 3.0% market share in all segments in the medium term, which is more challenging in consumer banking where it has a more limited presence (0.3% market share).

The bank's business lines are well diversified into corporate banking, retail banking, financial services and a brokerage subsidiary representing 11.6%, 20.0% 49.8% and 19.1% of the bank's operating profit as of December 2021 respectively. Corporate lending represented 75.1% of the gross loan portfolio, mortgage loans 23.1% and consumer loans only 1.8% of gross loan portfolio, as of December 2021.

Consorcio Financiero is 84% owned by three families, 8.2% by the IFC (World Bank group) and 7.8% by current and former executives of the group. The insurance/financial business is the most important investment of the three families, who also have interests in other large companies in Chile such as Coca Cola Andina, Entel, Pucobre and others.

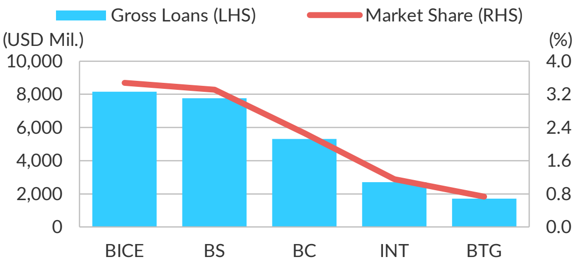
The bank's organizational structure is simple and straight forward and doesn't affect the ratings.

Banco Consorcio´s management count with a broad and ample market experience. Most of the bank's senior management has worked with the bank since its creation in 2009 and have previously worked with large international and domestic banks or local regulators. Management has shown that it is able to achieve most of the bank´s strategic objectives. This is reflected in the increased franchise achieved in a relatively short period.

In Fitch´s opinion, Banco Consorcio´s corporate governance practices are adequate; despite its ownership structure and the fact that the bank is not a listed company, all practices are aligned with the best practices adopted in Chile. The board of directors has 9 members, three of which are independent which is more than required by local regulations. The bank's chairman is the CEO of Consorcio Financiero.

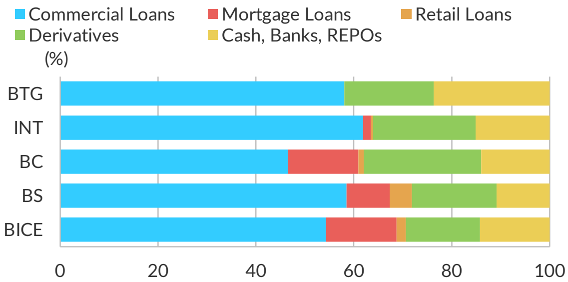
The bank's strategy is to grow above the market average and gain market share, with a special focus on its core segments and in consumer loans. The bank also seeks to continue diversifying its funding base both by instrument and investor and to converge to the funding structure of the banking industry, while maintaining its operational cost efficiency and ROE above 15%.

Market Share
(As of 2021)



Note: Market share excluding operations abroad.
Source: Fitch Ratings, Fitch Solutions.

Breakdown of Assets
(As of 2021)



Source: Fitch Ratings, Fitch Solutions.

Risk Profile

The bank´s risk appetite is considered moderate, based on good underwriting standards and risk controls, although in recent years credit growth has been relatively aggressive – but expected when considering the bank´s size and growth strategy. Risk policies are reasonable and in line with the industry standards. The bank has good knowledge of its main credit segment, the corporate business.

The approval process is centralized, with members of the board forming part of the various committees that are in charge of approving credit operations. The approval of corporate loans is done by hierarchy according to the involved amount and the bank´s board of directors approves all credit over USD1 million. Banco Consorcio's loan portfolio has a high level of collateral of 69% of total loans, mostly covered by mortgages and, to a lesser extent stocks pledges.

The retail segment has scoring systems that have been developed internally and are in line with the industry standards.

For real estate and construction the bank only finances the construction cost of each project, in special cases the land is financed, but the loan has to be paid once the construction is financed. Most projects financed are residential developments, a minimum of pre-sales is required and a maximum loan to value (LTV) of 90% is allowed.

The bank has a relatively higher risk appetite in the credit area compared to its local peers because of its growth expectations and concentrations on both sides of the balance sheet. Concentration in the real estate sector is high as it accounted for 33% of the total loan portfolio at YE21, which is partly mitigated by the bank's ample expertise in this sector and its prudent approach. Even though the bank's loan portfolio is still concentrated in large corporates, some deterioration of its asset quality ratios would be expected in the medium and long term as it diversifies into smaller-r sized companies and retail banking.

Required reserves depend on the risk categories and minimum levels vary depending on the type of loan. The commercial portfolio provisions are determined according to the 16 regulatory categories and the reserve framework for the retail segment relies on an expected-loss approach.

The operational risk committee comprises two directors, the CEO and the rest of the bank's top managers. The operational risk area reports to the risk management area and is responsible for designing and implementing the policies approved by the board, identifying operational and IT risks, registering the operational risks losses and implementing mitigating initiatives, as well as maintaining contingency and IT security plans in place.

The bank's long-term strategy aims to grow its loan portfolio above the market average in order to gain market share. In line with this, growth has been aggressive in recent years, but focused on the bank's core businesses, and has outpaced internal capital generation. However, this is contemplated in the strategic plan and regular capital injections are done to finance the bank's expansion.

In 2021, loan growth was strong (20.7%) and faster than the market average (3.4%), after a period of low growth in 2020. Growth was mainly in corporate and residential mortgage loans, which grew by 13.7% and 50.5%, respectively. For 2022, the bank plans to significantly reduce the growth rate of the loan portfolio given the expected sharp economic slowdown and to restore capitalization to its traditionally high levels.

Market risks are relatively limited because of the strict limits for interest rate and currency mismatches imposed internally and by regulation. Trading activities are relatively low in terms of risk and the bank does not assume significant foreign exchange risks as only intraday positions are authorized. The majority of treasury revenues are derived from the accrual of the investment portfolio and the trading of securities by the Central Bank and the Chilean Treasury.

The bank has a maturity and interest rate mismatch, which is common to the whole industry, but is partly mitigated by the short tenor of its assets. Interest rate risk is moderate, with a short-term limit of 35% of its net interest margin and a long-term limit of 20% of regulatory capital; there were no breaches during 2021 (18.1% and 5.7% as of December 2021 respectively).

In addition to complying with market risk regulatory limits, the bank uses VAR methodology (historic simulation, 99%) for its investment portfolio with very conservative limits (1.1% of the bank's equity for the global VAR limit); there were no breaches during the past year.

As with most Chilean financial institutions, the bank maintains a significant long net position in Chilean inflation-indexed UF monetary units, which is actively managed according to inflation expectations and therefore does not represent a material risk for the bank. As of YE21 this exposure was 1.8x the bank's equity.

Financial Profile

Asset Quality

As of February 2022, the bank reported a NPL ratio of 1.41%, lower than the December 2020 1.69% rate. The bank's NPL ratio has deteriorated above its historic average since 2019 due to a few specific cases and remains relatively high, but with a declining trend, as a result of more-conservative measures adopted by the bank and also due to the implementation of extensive social assistance measures by the government and the Central Bank. While Fitch expects this metric to continue to gradually improve, any potential impairment should be manageable.

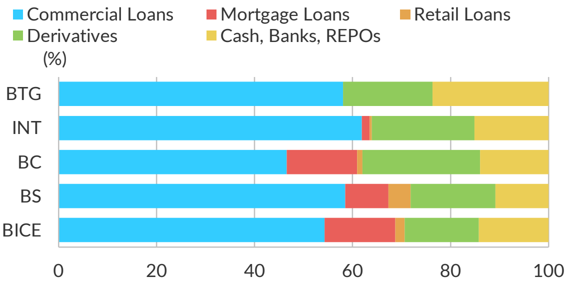
As of December 2021, loan loss reserve coverage (including additional reserves) rose to 211% from 127.97% at the end of December 2020. Fitch also considers the high level of collateralization of the loan portfolio.

The concentration of the portfolio by debtors is high since the 20 largest group exposures accounted for 18.1% of gross loans and 0.9x total capital in December 2021, proportions that have gradually decreased in recent periods.

In addition. the commercial loan portfolio shows a relatively high concentration in the real estate sector, with the other economic sectors well diversified. As of December 2021, the real estate sector accounted for 33.8% of the portfolio, with no other sector accounting for more than 10%.

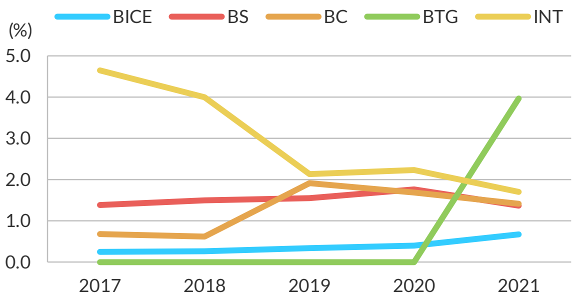
Non-loan exposures are high on the balance sheet. As of Dec. 31, 2021, the investment portfolio represented about 22.5% of total assets. The bank has reduced its appetite for local corporate and other Latin American bank securities and it replaced them with Central Bank or Treasury instruments. This portfolio is of strategic importance for Banco Consorcio, as it provides with a liquidity cushion and generates accrual earnings.

Breakdown of Assets
(As of 2021)



Source: Fitch Ratings, Fitch Solutions.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions.

Earnings and Profitability

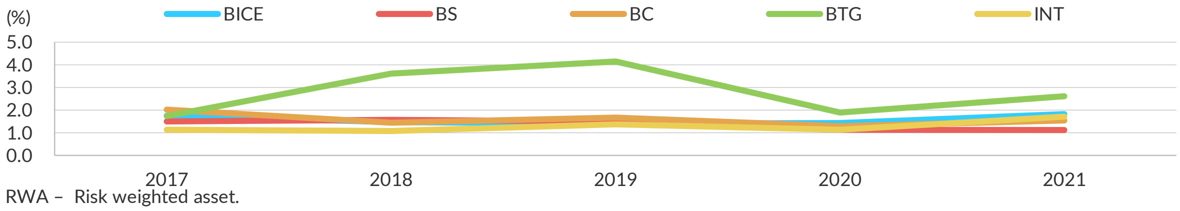
Banco Consorcio's profitability measured as operating profit over RWA is adequate and similar to that of its peers. It has been based on strong loan portfolio growth, good cost efficiency levels and adequate loan quality. As of December 2021, operating profit over RWA reached 1.55%, in line with its four-year average (1.49%).

Net interest income is the main contributor to gross income and represented 82.7% of total net operating income as of December 2021 (December 2020: 66.8%). Net interest margin (NIM), measured as net interest income on average assets, shows a positive trend during the last four years as the bank consolidates its business strategy. Profitability metrics indicate the robustness of Banco Consorcio's business model and can further benefit from greater income diversification in the long term, as loans continue to grow as a proportion of total assets, and as the bank benefits from the synergies with the Consorcio Group and generates higher cross-selling opportunities.

Non-financial income is mainly made up of treasury results and commission income. The former mainly stems from securities sales and the accrual of the fixed income portfolio. The rest of the non-financial income corresponds to distribution to clients and intermediation. The bank's strategy is to expand cross-selling of products, which should gradually result in higher fee income.

Banco Consorcio's cost efficiency is good and one of the pillars of its consistent profitability; at YE21 the cost to income ratio was a low 27.4%. This is due to the fact that it is part of one of the largest financial groups in the country, which allows important operational and marketing synergies, as well as the possibility of reaching a broad customer base, which contributes to achieving growth and diversification in the long-term, by creating a complete offering of financial products.

Operating Profit/RWA



RWA – Risk weighted asset.
Source: Fitch Ratings, Fitch Solutions.

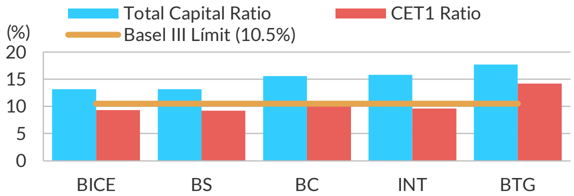
Capital and Leverage

Banco Consorcio's capitalization level is strong and compares favorably with its domestic peers. However, the CET1 ratio decreased to 10.5% in December 2021 due to the bank's strong loan growth. In order to restore its capital ratios, the bank plans to reduce loan portfolio growth in 2022. In addition, the CET1 ratio benefitted from the adoption of IFRS 9 in January 2022, which improved the CET1 ratio to 13.37% as of February 2022.

The agency estimates that Banco Consorcio's capitalization will remain commensurate with its ratings, based on the bank's growth objectives, good internal capital generation due to its 50% dividend policy and constant capital contributions from the parent.

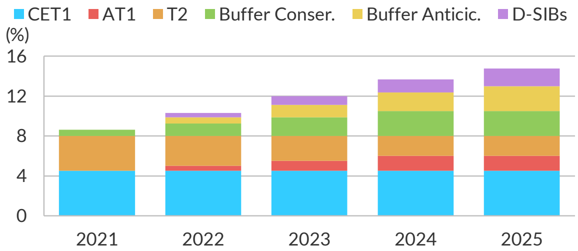
Capitalization Ratios

(As of Dec. 2021)



Total Capital Ratio – CET1+T2. RWA – Including credit and market risk.
Source: Fitch Ratings, Fitch Solutions.

Basel III Phase-in



Source: Fitch Ratings, Fitch Solutions.

Funding and Liquidity

In Fitch's view, diversifying the financing structure continues to be one of the bank's main challenges. The bank's objective is to achieve a liability structure similar to that of the Chilean banking system, especially due to its dependence on wholesale funding and the small proportion of demand deposits in its funding structure.

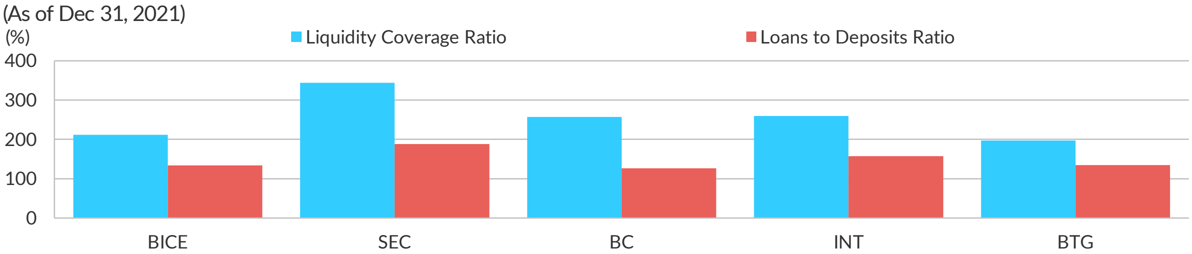
As of December 2021 the bank's indicator of loans to deposits was 126.2% and its total liabilities structure was as follows: 45% time deposits, 19% senior bonds, 12% Central Bank, 8% equity, 7% repo transactions, 5% sight deposits, 3% subordinated bonds, and 1% foreign financial institutions.

Term deposits are highly concentrated, the 10 largest depositors (excluding stockbrokers, whose deposits are traded in a very fragmented way) accounted for 45.7% of the total. The largest accounted for 11.7% of the total and no other depositor exceeded 7% of the total. The risk of this concentration is mitigated by the bank's ample liquidity.

The bank closely monitors its liquidity levels and compliance with internal and regulatory limits. Likewise, it works with different stress tests in which it assumes very conservative parameters. The bank has sustained a high liquidity coverage ratio, which rose to 257% on a consolidated basis as of December 2021 benefitting from higher holdings of high-quality liquid assets; the net stable funding ratio (NSFR) was 80% at the same date. The internal limit for the liquidity coverage is 150%. Fitch considers BC's liquidity levels to be moderate, given the high concentration of its deposits.

Liquidity Ratios

(As of Dec 31, 2021)



Source: Fitch Ratings, Fitch Solutions.

Financials

Financial Statements

Summary Financials and Key Ratios

	Two Months — 2/28/22		2021	2020	2019	2018
	(USD Mil.)	(CLP Bil.)	(CLP Bil.)	(CLP Bil.)	(CLP Bil.)	(CLP Bil.)
(Year End as of Dec. 31)	Not Disclosed	Not Disclosed	Not Disclosed	Not Disclosed	Not Disclosed	Audited - Unqualified
Summary Income Statement						
Net Interest and Dividend Income	60.0	48.0	178.2	126.4	93.8	80.7
Net Fees and Commissions	2.0	1.8	10.5	9.1	8.9	8.2
Other Operating Income	2.0	1.3	26.6	53.5	51.3	14.9
Total Operating Income	63.0	51.0	215.4	189.0	154.1	103.7
Operating Costs	15.0	12.2	59.0	46.9	33.7	40.0
Pre-Impairment Operating Profit	48.0	38.8	156.4	142.2	120.4	63.7
Loan and Other Impairment Charges	22.0	17.7	74.2	83.4	44.2	9.5
Operating Profit	26.0	21.1	82.2	58.8	76.2	54.2
Other Non-Operating Items (Net)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Tax	3.0	2.8	10.9	8.2	13.0	11.1
Net Income	23.0	18.3	71.3	50.6	63.2	43.1
Other Comprehensive Income	100.0	80.2	(100.6)	21.0	(2.0)	(5.8)
Fitch Comprehensive Income	122.0	98.6	(29.3)	71.5	61.2	37.3
Summary Balance Sheet						
Assets						
Gross Loans	5,661.0	4,558.1	4,591.3	3,783.1	3,473.4	2,644.4
- of which impaired	73.0	58.9	64.9	63.9	66.2	16.5
Loan Loss Allowances	153.0	123.4	125.4	81.7	62.7	44.8
Net Loan	5,507.0	4,434.7	4,466.0	3,701.4	3,410.7	2,599.6
Interbank	70.0	56.3	41.1	29.9	40.1	30.0
Derivatives	120.0	96.5	108.2	109.4	91.4	26.0
Other Securities and Earning Assets	2,484.0	2,000.3	1,700.4	1,657.0	1,815.4	1,704.0
Total Earning Assets	8,181.0	6,587.8	6,315.7	5,497.7	5,357.6	4,359.7
Cash and Due From Banks	681.0	548.1	817.7	302.2	208.7	127.1
Other Assets	287.0	231.5	271.0	116.6	190.5	124.0
Total Assets	9,149.0	7,367.5	7,404.3	5,916.5	5,756.9	4,610.8
Liabilities						
Customer Deposits	4,250.0	3,422.1	3,638.7	2,686.8	3,095.9	2,455.0
Interbank and Other Short-Term Funding	1,651.0	1,329.2	1,298.4	1,046.3	787.8	734.1
Other Long-Term Funding	2,175.0	1,751.0	1,660.6	1,388.0	1,109.1	833.4
Trading Liabilities and Derivatives	140.0	112.5	112.1	80.2	80.6	48.0
Total Funding and Derivatives	8,215.0	6,614.9	6,709.9	5,201.4	5,073.4	4,070.4
Other Liabilities	147.0	118.6	134.8	117.7	164.8	120.4
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	787.0	634.0	559.7	597.4	518.6	420.0
Total Liabilities and Equity	9,149.0	7,367.5	7,404.3	5,916.5	5,756.9	4,610.8
Exchange Rate		USD1 = CLP805.25	USD1 = CLP866.25	USD1 = CLP728.96	USD1 = CLP744.62	USD1 = CLP695.69

N.A. – Not applicable.
Source: Fitch Ratings.

Key Ratios

Summary Financials and Key Ratios

(%, Annualized as Appropriate, Year End as of Dec. 31)	2/28/22	12/31/21	12/31/20	12/31/19	12/31/18
Profitability					
Operating Profit/Risk-Weighted Assets	2.6	1.5	1.3	1.7	1.5
Net Interest Income/Average Earning Assets	4.6	3.0	2.3	2.0	2.1
Non-Interest Expense/Gross Revenue	23.9	27.4	24.8	21.9	38.6
Net Income/Average Equity	18.7	12.5	9.7	12.6	10.2
Asset Quality					
Impaired Loans Ratio	1.3	1.4	1.7	1.9	0.6
Growth in Gross Loans	(0.7)	21.4	8.9	31.4	25.7
Loan Loss Allowances/Impaired Loans	209.4	193.3	128.0	94.7	271.0
Loan Impairment Charges/Average Gross Loans	(0.1)	1.8	0.9	0.9	0.4
Capitalization					
Common Equity Tier 1 Ratio	13.4	10.5	13.1	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	12.3	10.5	13.0	11.3	11.2
Tangible Common Equity/Tangible Assets	8.6	7.5	10.1	9.0	9.1
Basel Leverage Ratio	N.A.	7.5	10.0	8.9	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	(10.2)	(10.9)	(3.0)	0.7	(6.8)
Funding and Liquidity					
Gross Loans/Customer Deposits	133.2	126.2	140.8	112.2	107.7
Liquidity Coverage Ratio	N.A.	257.0	212.0	192.0	N.A.
Customer Deposits/Total Non-Equity Funding	52.6	55.2	52.5	62.0	61.0
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not applicable.
Source: Fitch Ratings.

Support Assessment

Shareholder Support KDs	
Parent IDR	•
Total adjustments (notches)	
Shareholder Support	bbb

Shareholder Ability to Support	
Shareholder	
Shareholder Regulation	1 Notch
Relative Size	2+ Notches
Country Risks	Equalised

Shareholder Propensity to Support	
Role in Group	Equalised
Reputational Risk	Equalised
Integration	1 Notch
Support Record	Equalised
Subsidiary Performance and Prospects	Equalised
Legal Commitments	Equalised

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

Banco Consorcio's SSR of 'bbb' reflects the potential support from its parent company, Consorcio Financiero S.A., if needed. Fitch believes the parent's propensity to provide support to Banco Consorcio is high given the bank's important role in the group providing core products and complementary financial services, as well as the potential implications for the parent should the bank default, given the cross-default clauses that exist in Consorcio Financiero's debt instruments.

Environmental, Social and Governance Considerations

Overall ESG

5	
4	
3	
2	
1	

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.

Environmental (E)

General Issues	Score	Impact	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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality

E Scale

5
4
3
2
1

Social (S)

General Issues	Score	Impact	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	Business Profile (incl. Management & governance); Risk Profile
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
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
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	Business Profile (incl. Management & governance); Financial Profile

S Scale

5
4
3
2
1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
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
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale

5
4
3
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, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.