FitchRatings

Banks
Universal Commercial Banks
United States

Community Financial System, Inc.

Ratings

Foreign Currency

Long-Term IDR	A–
Short-Term IDR	F2
Viability Rating	a–
Government Support Rating	ns

Sovereign Risk (United States of America)

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

Outlooks

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

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Global Contagion Risk Growing from Rising CRE Delinquencies and Losses (April 2024)

U.S. Banks with Maturing Multifamily Loans Face Refinancing Risks (February 2024)

Global Economic Outlook (March 2024)

Fitch Affirms Community Bank System's IDRs at 'A-' and 'F2'; Outlook Negative (April 2024)

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Key Rating Drivers

Community Financial System, Inc.'s (CBU) ratings reflect its diversified business model for a bank its size, stable asset quality and solid deposit franchise, which offers ample low-cost core deposits that support earnings. The Negative Rating Outlook recognizes the bank's organic loan growth rates that are significantly above historical levels, which, if sustained, could signal a higher risk appetite.

Differentiated Business Model: CBU's ratings are supported by its business model, which is somewhat unique for a bank its size, with considerable revenue diversity derived from its non-banking businesses. This helps CBU achieve a proportion of non-interest income near 40%. These fee businesses also tend to be stable over time and give the bank reach outside its branch footprint. Fitch Ratings views this diversity in CBU's business as a key point of differentiation, which supports the overall rating.

Growth Remains Elevated: CBU has historically been judicious in pursuing growth, supplementing modest organic growth with regular acquisitions. The more recent cadence of acquisitions has slowed, and has been replaced with robust organic loan growth, which has averaged 13% for the past two years. While the bank has taken advantage of favorable market dynamics, Fitch, nonetheless, views this higher growth cautiously and expects it to moderate lower. If the higher growth is sustained, Fitch would view this as reflecting a more permanent shift in the bank's risk appetite.

CBU's longer-duration investment portfolio remains more sensitive to interest rate risk and potential losses should the bank sell a portion of the portfolio, although this is outside of Fitch's base case expectation.

Asset Quality Stable: Asset quality metrics remain stable and in line with historical metrics, with the bank's ratio of impaired loans of 0.56% in 2023, below its four-year average of 0.64% and slightly below the peer median of 0.58%. Likewise, realized losses remain low with net charge-offs of 0.09%, below the bank's four-year average of 0.10%, supported by a stable in-footprint regional economy. Fitch views some deterioration, in line with historical levels, as likely, as credit conditions continue to normalize.

While supported by the bank's historically low charge-offs, CBU's allowance for loan losses remains lower than that of peers. Fitch views the $3.4 million increase in 1Q24 as directionally positive, and prudent in light of recent growth, which has increased the proportion of unseasoned loans.

Profitability Remains Above Peers': Despite the $52.3 million loss CBU incurred due to the balance sheet restructuring undertaken in 1Q23, CBU's risk-adjusted profitability remained among the strongest of its peers. The firm's operating profit to risk-weighted assets (RWA) ratio of 1.73% in 2023 still compared favorably to the peer median of 1.37%, demonstrating the resiliency of its diversified business model and the stability of markets where it operates.

A key component is the bank's greater revenue diversity; its proportion of non-interest income to total revenue was 38% in 2023, significantly better than the peer median of 24%. Fitch expects profitability to remain better than that of peers in 2024.

Capital Remains Adequate: Regulatory capital levels have historically been among the highest of the midtier peer group. At 14.8% as of 4Q23, the bank's CET1 ratio remained significantly above the peer median of 10.9% and is likely to remain higher than peers'. However, tangible capital as measured by tangible common equity to tangible assets (TCE) remains the lowest of the peer set, as unrealized losses in the bank's securities portfolio have weighed heavily on the ratio.

Improvement in AOCI and, hence, TCE will largely depend on the direction of interest rates. While Fitch's baseline expectation is for the Fed to cut the policy rate by 75bps in 2H24, the bank remains sensitive to unexpected rate increases or events that would necessitate the sale of securities, which would trigger realized losses. Fitch expects CBU's tangible capital levels to remain more sensitive than those of peers.

Solid Deposit Franchise: CBU continues to benefit from a strong market share within the rural markets where it operates, giving the bank a stable source of low-cost, core deposits. The bank is likely to continue to outperform peers on deposit costs, with a very low realized deposit beta of 20% in the current cycle. At 75% at YE23, CBU's loan-to-deposit ratio remained in line with pre-pandemic levels and notably better than the peer median of 88%. While on-balance sheet liquidity is lower than that of peers, the bank has access to contingent funding, notably in excess of uninsured deposits.

Holding Company: The IDR and Viability Rating (VR) of CBU are equalized with those of its operating company CBNA, reflecting its role as a bank holding company, which is mandated in the U.S. to act as a source of strength for its bank subsidiaries. The ratings are also equalized to reflect the very close correlation between holding company and subsidiary failure and default probabilities. Fitch views common equity double leverage as low, and holding company liquidity coverage as sufficient to meet near-term obligations.

Rating Sensitivities

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

- Organic loan growth sustained at levels notably above historical levels would signal a higher risk appetite and could result in a ratings downgrade.
- A disposition of securities triggering realized losses, which lower the bank's CET1 ratio in line with that of lower-rated peers, would likely result in negative rating action, absent a credible plan to increase capital. Similarly, a decline in the TCE ratio below 4% would likely trigger a downgrade.
- Fitch would be sensitive to any large acquisition that fundamentally changes the risk appetite/profile of the company, or depress tangible capital levels.
- Fitch views CBU's fee businesses, particularly the BPAS unit, as a key point of differentiation and supportive of the bank's rating. Fitch would be sensitive to any strategic or structural changes that would materially diminish BPAS's fee business contribution to earnings.
- Should CBU begin to exhibit signs of weakness, demonstrate trouble accessing the capital markets or have inadequate cash flow coverage to meet near-term obligations, Fitch could notch down the holding company IDR and VR from the ratings of the operating companies.

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

- Fitch believes CBU's concentration in rural markets in Upstate and central New York, northeast Pennsylvania and Vermont as a limiting factor for upward ratings movement. Any longer-term movement would likely require an enhanced business profile and operating income base more consistent with higher-rated banks'. This would need to be achieved without major shifts in risk appetite.

Other Debt and Issuer Ratings

CBNA's long-term uninsured deposit rating is rated one notch higher than the bank's IDR and senior unsecured debt rating because U.S. uninsured deposits benefit from depositor preference. U.S. depositor preference gives deposit liabilities superior recovery prospects in the event of default. Fitch rates CBNA's short-term, uninsured deposits 'F1', in accordance with its "Bank Rating Criteria," based on CBU's long-term deposit rating and Fitch's assessment of the bank's funding and liquidity profile.

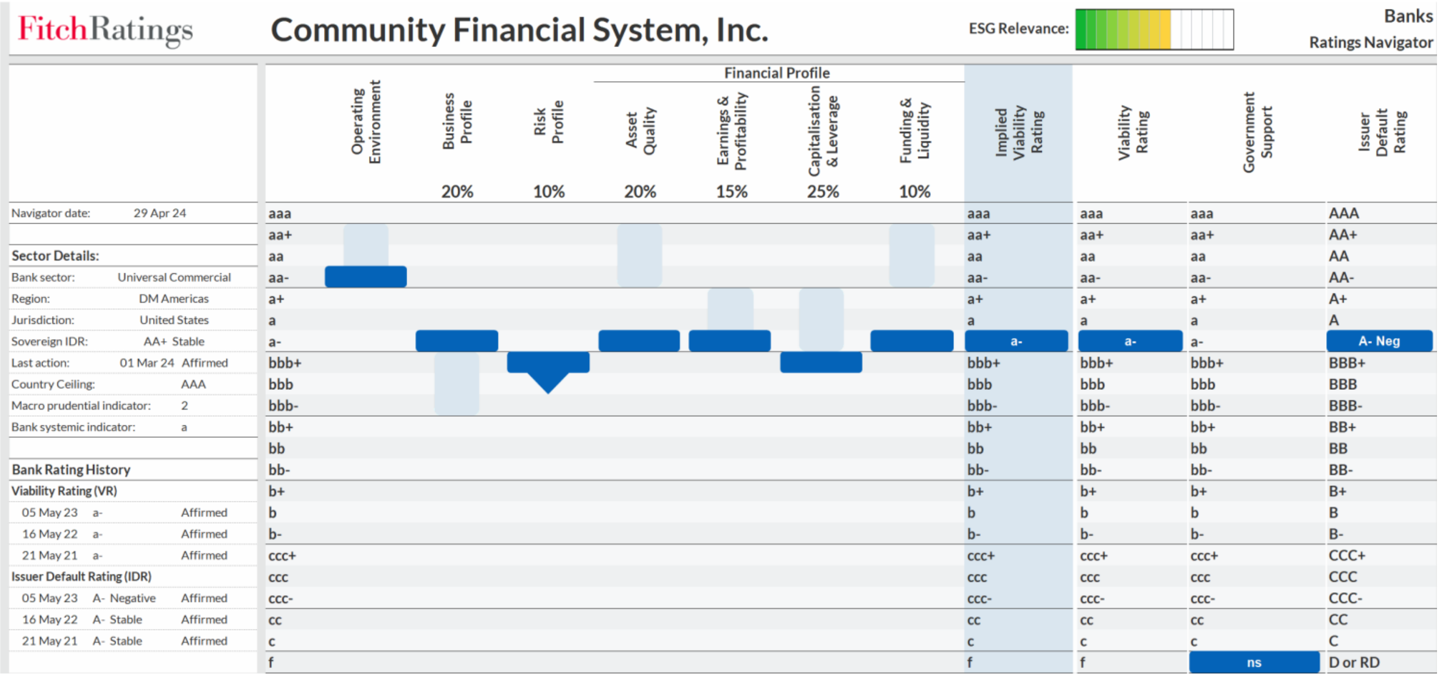
The long-term deposit rating is sensitive to any change to CBNA's Long-Term IDRs. The short-term deposit rating is sensitive to any change in the long-term deposit rating and Fitch's assessment of CBU's funding and liquidity profile.

Significant Changes from Last Review

Management Update

Effective Jan. 1, 2024, Dimitar Karaivanov (formerly the COO) succeeded Mark Tryniski as CEO. Mr. Tyrniski's retirement was announced in July 2023. Mr. Karaivanov joined CBU in June 2021 as EVP of financial services and corporate development, and was promoted to COO in 2022. Previously an investment banker at Lazard, Mr. Karaivanov brings broad financial services knowledge to a bank with diversified businesses.

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 upward or downward 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 'a-' has been assigned above the implied 'bbb' category score due to the following adjustment reason: business model (positive).

The Asset Quality score of 'a-' has been assigned below the implied 'aa' category score due to the following adjustment reason: concentrations (negative).

The Capitalization & Leverage score of 'bbb+' has been assigned below the implied 'a' category score due to the following adjustment reason: core capital calculation (negative).

The Funding and liquidity score of 'a-' has been assigned below the implied 'aa' category score due to the following adjustment reason: future and historical metrics (negative).

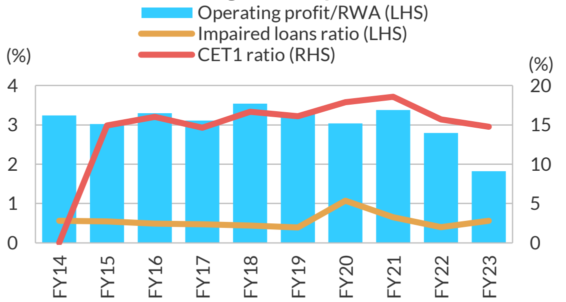
Company Summary and Key Qualitative Factors

Business Profile

Community Financial System, Inc. (CBU) is a $15.9 billion (1Q24) bank holding company headquartered in DeWitt, NY. Its bank subsidiary, Community Bank N.A., operates more than 200 branches in Upstate New York, northeast Pennsylvania and Vermont. It offers a variety of retail and commercial banking products through its network. CBU's strength has historically been in the retail banking space, as it has a strong deposit base and a solid mortgage banking and auto lending platform within its footprint. However, CBU's commercial offerings have continued to broaden since it acquired Merchants Bancshares in 2017, with commercial lending making up an increasing percentage of loans.

CBU maintains good business diversification through consistent fee revenue generated by its employee benefit services, and insurance and wealth management businesses. These businesses have helped CBU generate solid fee revenue, which accounts for 38% of total revenues, well above the midtier peer median of 19%. Fitch views this diversified business model as a key point of differentiation, which supports the overall rating.

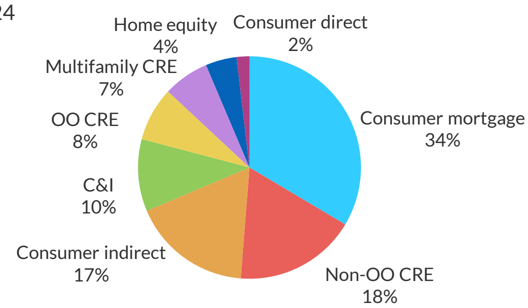
Performance through the Cycle



Source: Fitch Ratings, Fitch Solutions, CBU

Loans

1Q24



Source: Fitch Ratings, Fitch Solutions, CBU

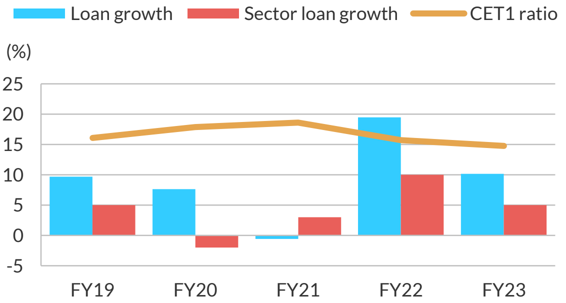
Risk Profile

CBU's ratings have historically been supported by its conservative risk appetite, solid underwriting standards and more granular loan portfolio. The bank generally focuses within its footprint and on a limited range of lending categories that it knows well. This has helped CBU consistently maintain credit losses well below industry levels and maintain profitability in line with historical norms.

While bank acquisitions have slowed more recently, they, nonetheless, have historically been a main feature of CBU's growth, and are viewed as a core competency of the bank. However, in the absence of a favorable M&A environment and in the face of buoyant loan demand within its footprint, the bank has focused more on organic loan-driven growth. CBU followed the 15% organic growth realized in 2022 with 10.1% loan growth in 2023, which was the second highest among midtier regional peers. Additionally, commercial real estate lending has been a significant driver of recent growth, with the bank's concentration increasing from 104% of risk-based capital prior to the pandemic to 169% as of 1Q24. This higher level of growth is atypical for the bank, and could be viewed as a permanent shift in its risk appetite, if sustained. In any case, Fitch would expect the same level of diligence in underwriting that has historically produced low loan losses.

Recent robust growth also coincides with a longer-duration investment portfolio that has generated higher unrealized AOCI losses. These losses have had a more notable impact on the bank's tangible capital levels compared to peers. The longer-duration and unrealized losses also give the bank less flexibility in the use of its capital, and make it more vulnerable should unforeseen events necessitate the sale of securities, although such a scenario remains outside Fitch's baseline expectations. These risks are also partially mitigated by the bank's solid earnings power and higher levels of regulatory capital relative to peers.

Loan Growth



Source: Fitch Ratings, Fitch Solutions, CBU

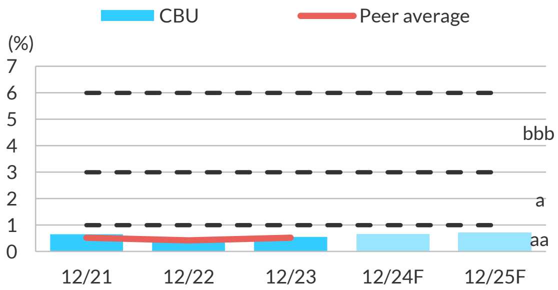
Financial Profile

Asset Quality

CBU's consistently strong asset quality metrics reflect the bank's historically conservative risk appetite and stable rural markets, where limited competition allows it to be selective in its underwriting. The bank has also tended to focus on a narrower band of lower-risk lending segments in markets it knows well. As a result, CBU's asset quality metrics continued to perform better than the peer median through the pandemic, as well as more recently, when they remained in line with historically low levels.

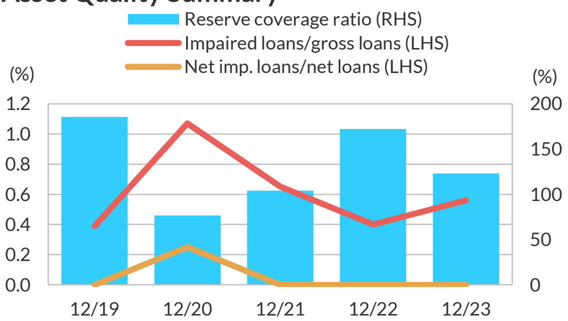
Organic loan growth remained robust in 2023, completing two years of double-digit growth with broad loan growth across business and consumer segments. While Fitch expects the bank to continue to adhere to prudent loan underwriting, this level of organic growth is, nonetheless, notably higher than typical for the bank, which we view cautiously, particularly since a significant portion of the growth has been in CRE. Certain CRE segments, such as office and multifamily, which together make up roughly 10% of loans, face secular headwinds. Additionally, much of these recently added loans remain unseasoned, and the growth precedes an expected period of greater economic uncertainty. While some normalization of asset quality off of cyclical lows is likely, the regional economy of CBU's footprint has typically avoided large peak-to-trough variations more typical in faster-growing regions.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Asset Quality Summary



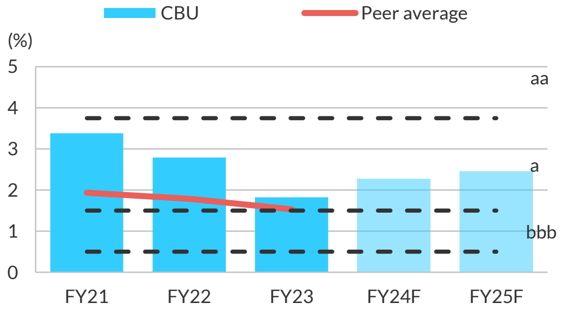
Source: Fitch Ratings, Fitch Solutions, CBU

Earnings and Profitability

CBU's earnings benefit from the greater revenue diversity of its non-bank businesses, which make up nearly 40% of revenues. Fitch views this broader diversity as atypical and a key point of differentiation, particularly for a bank its size. These businesses, with the benefits administration business chief among them, tend to be less rate-sensitive and more predictable. Earnings stability is also promoted by a more stable, albeit slower-growing, regional economy. This revenue diversity helped sustain profitability, despite the $52.3 million loss incurred as the bank restructured its balance sheet in early 2023. The loss resulted in a notable drop in the bank's ratio of operating income to risk-weighted assets, below its four-year average of 2.71%. However, at 1.77%, it remains above the peer median of 1.37%, helped by a greater proportion of revenue from CBU's RWA-light non-bank businesses.

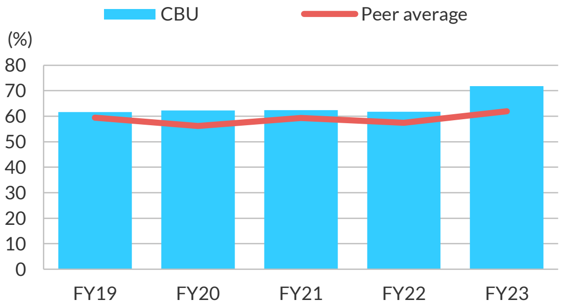
CBU operates a fairly large number of branches for a bank its size, as it operates in less densely populated markets that are spread out over a relatively large geographic region. Despite this, expenses are generally well managed with an efficiency ratio typically in the low-mid-60% range.

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Non-Interest Expense/Gross Revenue



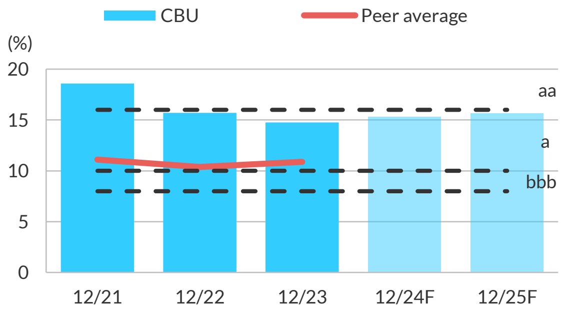
Source: Fitch Ratings, Fitch Solutions, banks

Capital and Leverage

CBU has historically deployed capital effectively in measured and accretive acquisitions, although we note a more recent shift to prioritize deployment into organic loan growth. While the bank could still deploy capital in M&A, Fitch expects that it may be more focused on specific businesses, or smaller, opportunistic bank acquisitions. Fitch expects that CBU will continue to maintain a dividend payout near historical levels, consistent with its track record of increasing its dividend for 32 consecutive years.

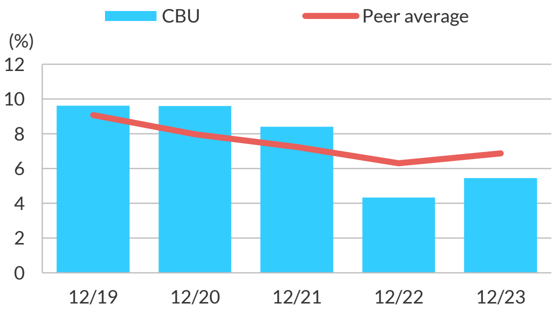
CBU's regulatory capital levels continue to be robust. The bank's CET1 capital ratio has consistently been at the higher end of both its peer group and Fitch's universe of rated U.S. banks. This is a result of its relatively low RWA density, with loans making up ~62% of total assets. However, we note that this percentage has gradually increased over time. While the bank's CET1 ratio of 14.2% is the second highest of the midtier regional peer group, its ratio of tangible common equity to tangible assets remains the lowest in the peer group, under the weight of CBU's longer-duration investment portfolio, which generated significant unrealized AOCI losses with interest rates remaining higher.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Tangible Equity/Tangible Assets



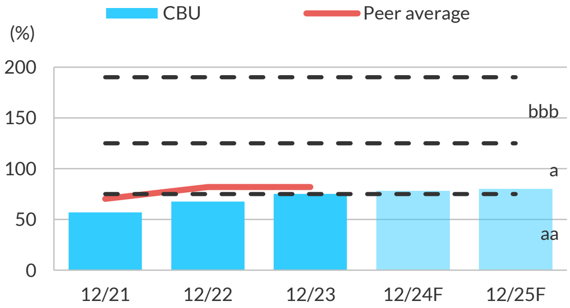
Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

CBU's strong market presence and more limited competition allow it to be a price maker in the rural markets in which it operates. As a result, it benefits from strong pricing power and high proportion of core deposits that make up 85% of total deposits as of 1Q24. CBU benefits from one the lowest deposit betas, with realized beta in the current tightening cycle of approximately 20%. This results in the lowest cost of interest-bearing deposits in the peer group, and when combined with 28% of deposits being non-interest bearing, results in the bank achieving the lowest overall cost of deposits in the group at 1.12%, significantly below the peer median of 2.61% at 1Q24.

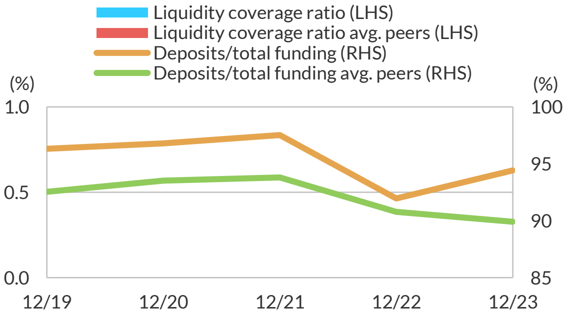
The bank also has access to significant contingent liquidity of approximately $4.3 billion, consisting of $1.6 billion in borrowing capacity from the FHLB, $1.1 billion of FRB capacity and $1.6 billion of unpledged investment securities. In total, cash and contingent funding equal a robust 217% of uninsured deposits.

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding & Liquidity versus Peers



Source: Fitch Ratings, Fitch Solutions, banks

Additional Notes on Charts

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

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

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Light-blue columns represent Fitch's forecasts. Peer average includes Synovus Financial Corp. (VR: bbb), Trustmark Corporation (bbb), East West Bancorp, Inc. (bbb), Wintrust Financial Corporation (bbb+), BankUnited, Inc. (bbb), Western Alliance Bancorporation (bbb-) and UMB Financial Corporation (a-).

Financials

	Dec. 31, 2023 12 months (USD mil.) Audited - unqualified	Dec. 31, 2022 12 months (USD mil.) Audited - unqualified	Dec. 31, 2021 12 months (USD mil.) Audited - unqualified	Dec. 31, 2020 12 months (USD mil.) Audited - unqualified
Summary income statement				
Net interest and dividend income	437	421	374	368
Net fees and commissions	219	219	211	163
Other operating income	-5	40	36	66
Total operating income	652	679	621	596
Operating costs	468	420	387	372
Pre-impairment operating profit	184	260	233	225
Loan and other impairment charges	11	15	-9	14
Operating profit	173	245	242	211
Other non-operating items (net)	-4	-5	-1	-5
Tax	36	52	52	41
Net income	132	188	190	165
Other comprehensive income	130	-636	-113	72
Fitch comprehensive income	262	-448	77	237
Summary balance sheet				
Assets				
Gross loans	9,705	8,809	7,374	7,418
- Of which impaired	54	36	48	80
Loan loss allowances	67	61	50	61
Net loans	9,638	8,748	7,324	7,357
Interbank	—	—	—	—
Derivatives	0	0	0	2
Other securities and earning assets	4,165	5,315	4,979	3,595
Total earning assets	13,804	14,063	12,303	10,954
Cash and due from banks	191	210	1,875	1,646
Other assets	1,561	1,563	1,374	1,332
Total assets	15,556	15,836	15,553	13,931
Liabilities				
Customer deposits	12,928	13,012	12,911	11,225
Interbank and other short-term funding	358	1,115	325	284
Other long-term funding	408	23	5	10
Trading liabilities and derivatives	—	0	0	1
Total funding and derivatives	13,693	14,150	13,241	11,520
Other liabilities	165	134	211	230
Preference shares and hybrid capital	—	—	—	77
Total equity	1,698	1,552	2,101	2,104
Total liabilities and equity	15,556	15,836	15,553	13,931
Exchange rate	USD1 = USD1	USD1 = USD1	USD1 = USD1	USD1 = USD1

Source: Fitch Ratings, Fitch Solutions

	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2020
Ratios (%; annualized as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.8	2.8	3.4	3.0
Net interest income/average earning assets	3.2	2.9	2.8	3.2
Non-interest expense/gross revenue	71.8	61.8	62.4	62.3
Net income/average equity	8.2	10.9	9.2	8.1
Asset Quality				
Impaired loans ratio	0.6	0.4	0.7	1.1
Growth in gross loans	10.2	19.5	-0.6	7.7
Loan loss allowances/impaired loans	123.1	172.1	104.0	76.6
Loan impairment charges/average gross loans	0.1	0.2	-0.1	0.2
Capitalization				
Common equity Tier 1 (CET1) ratio	14.8	15.7	18.6	17.9
Fully loaded CET1 ratio	14.8	15.7	18.6	17.9
Fitch Core Capital ratio	—	—	—	—
Tangible common equity/tangible assets	5.5	4.3	8.4	9.6
Basel leverage ratio	9.3	8.8	9.1	10.2
Net impaired loans/CET1	-0.9	-1.9	-0.1	1.5
Net impaired loans/Fitch Core Capital	—	—	—	—
Funding and Liquidity				
Gross loans/customer deposits	75.1	67.7	57.1	66.1
Gross loans/customer deposits + covered bonds	—	—	—	—
Liquidity coverage ratio	—	—	—	—
Customer deposits/total non-equity funding	94.4	92.0	97.5	96.8
Net stable funding ratio	—	—	—	—

Source: Fitch Ratings, Fitch Solutions

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	a+ to a-
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AA+/ Stable
Size of banking system	Neutral
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Negative
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

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

Environmental, Social and Governance Considerations

FitchRatings **Community Financial System, Inc.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Community Financial System, Inc. has 5 ESG potential rating drivers

- Community Financial System, Inc. 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.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

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

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

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

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

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

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

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