

# Community Financial System, Inc.

## Key Rating Drivers

The affirmation of Community Financial System, Inc.'s (CBU) ratings reflect its diversified business model for its size, stable asset quality and solid deposit franchise, which offers ample low-cost core deposits that support earnings. Revision of the Outlook to Stable is based on Fitch Ratings' expectation that organic loan growth will continue to moderate. However, CBU's rating still has limited headroom.

**Differentiated Business Model:** CBU's ratings are supported by its diversified business model, which is unique for its size. Non-interest income consistently contributes near 40% of revenues. These fee businesses also tend to be stable over time and give the bank reach outside its branch footprint. Fitch views CBU's business model and strong competitive position as key points of the differentiation that underpin the overall rating.

**Moderating Growth:** CBU has pursued more robust organic loan growth in recent years, taking advantage of a declining competitor presence in key markets. However, Fitch views this increased growth cautiously. The revision of the Outlook to Stable was driven by the reversion to single-digit loan growth in 2024 and our expectation of continued moderation in 2025.

**Interest Rate Risk Constraint:** Notwithstanding its multiyear balance-sheet repositioning, the securities portfolio has elevated sensitivity to interest rate risk, with a duration of 6.2 years. Under Fitch's base case, we expect the portfolio duration to continue declining.

**Asset Quality Normalizing:** While the impaired loans ratio rose above the bank's four-year average in 2024, it remains consistent with historical norms for the bank, considering that the average includes several years of exceptional asset quality. Despite this, realized losses remain low, with net charge-offs of 0.10% in 2024, supported by a stable in-footprint regional economy. Fitch views some continued asset quality deterioration as possible as credit conditions continue to normalize.

While supported by historically low charge-offs, CBU's allowance for loan losses remains lower than that of peers. Fitch views the 10-bp increase in coverage to 0.79% of loans as prudent considering recent growth, which has increased the proportion of unseasoned loans.

**Profitability Remains Above Peers':** CBU's risk-adjusted profitability remained among the strongest of its peers, further improving in a more normalized operating environment in 2024 with a ratio of operating profit to risk-weighted assets notably above peers, 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, with its proportion of non-interest income to total revenue of 39% in 2024, significantly better than the peer median of 24%.

**Capital Remains Adequate:** Regulatory capital levels have historically been among the highest of the mid-tier peer group. At 14.23% as of 4Q24, the bank's CET1 ratio remained significantly above the peers. However, tangible capital as measured by tangible common equity to tangible assets (TCE) was 5.56%, the lowest of the peer set, reflecting Accumulated Other Comprehensive Loss.

## Ratings

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

## Rating Outlooks

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

## Highest ESG Relevance Scores

Environmental	2
Social	3
Governance	3

## Applicable Criteria

[Bank Rating Criteria \(March 2025\)](#)

## Related Research

[U.S. Banks Outlook 2025 \(December 2025\)](#)  
[Global Economic Outlook - April 2025 Update](#)

## Analysts

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**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 in the recent rising rate cycle. At 78% at YE24, CBU's loan-to-deposit ratio remained in line with pre-pandemic levels and notably better than the peers.

**Holding Company:** CBU's IDR and Viability Rating (VR) are equalized with those of its operating company, Community Bank, N.A. (CBNA), reflecting its role as a bank holding company, with such companies mandated in the U.S. to act as a source of strength for their 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

- Fitch views CBU's fee businesses, particularly the Benefit Plans Administrative Services (BPAS) unit, as a key point of differentiation and supportive of the bank's rating. The rating would be sensitive to any strategic or structural changes that materially diminish BPAS' fee business contribution to earnings.
- Organic loan growth sustained at levels notably above historical levels would signal a higher risk appetite and could result in a ratings downgrade.
- Further growth of unrealized losses in the securities portfolio, or a disposition of securities triggering realized losses, would likely result in negative rating action. Similarly, a decline in the TCE ratio below current levels would likely prompt a rating review.
- Deterioration in asset quality such that net charge-offs or the ratio of impaired loans rise to levels of lower rated peers could result in negative rating action.
- The rating would be sensitive to any large acquisition that fundamentally changes the risk appetite/profile of the company or depresses tangible capital levels.

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

Fitch believes CBU's upward rating potential is limited, with its concentration in rural markets in upstate and central New York, northeast Pennsylvania and Vermont as a limiting factor. Any longer-term movement would likely require an enhanced business profile, more robust franchise strength and a larger operating income base more consistent with those of 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

On November 7, 2024, CBU announced that CFO Joseph Sutaris would be retiring. Sutaris has been with CBU since 2011, holding several roles before assuming the role of CFO in 2018. In April 2025 Marya Burgio Wlos joined the company as his successor. She previously served as COO for M&T's investment banking services. Sutaris is expected to remain with the bank for a transition period through at least the second quarter of 2025.

Ratings Navigator

Community Financial System, Inc.



**Banks**  
 Ratings Navigator

	Operating Environment	Business Profile	Risk Profile	Financial Profile			Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
				Asset Quality	Earnings & Profitability	Capitalisation & Leverage				
		20%	10%	20%	15%	25%	10%			
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- Sta
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	ns	D or RD

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 its implied 'bbb' category score due to the following adjustment reason: business model (positive).

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

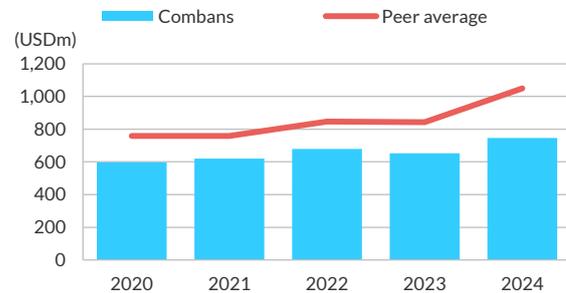
## Company Summary and Key Qualitative Factors

### Business Profile

CBU is a \$16.4 billion (4Q24) bank holding company headquartered in DeWitt, NY. Its bank subsidiary, Community Bank N.A., operates approximately 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 has continued to broaden its commercial offerings since it acquired Merchants Bancshares in 2017, with commercial lending making up an increasing percentage of loans.

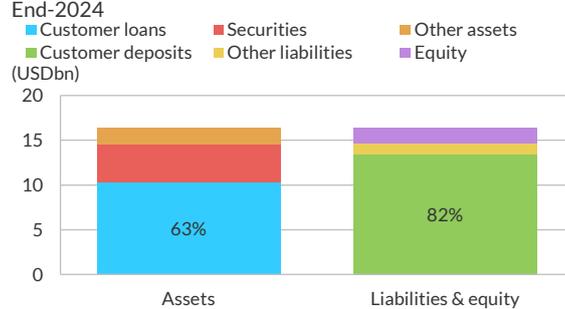
CBU maintains good business diversification through consistent fee revenue generated by its employee benefit services, insurance and wealth management businesses. These businesses have helped CBU generate solid fee revenue, which accounts for 38% of total revenues, well above the midtier peer median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

### Total Operating Income



Source: Fitch Ratings, Fitch Solutions, banks

### Balance Sheet



Source: Fitch Ratings, Fitch Solutions, Combans

### Risk Profile

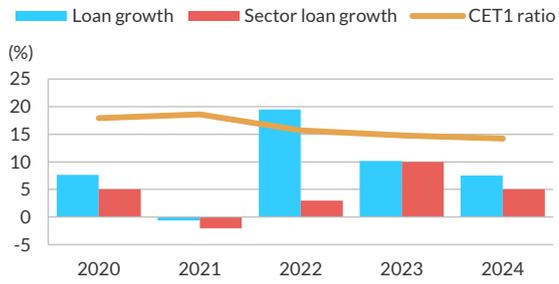
CBU's ratings have historically been supported by the bank's conservative risk appetite, solid underwriting standards and more granular loan portfolio. The bank generally focuses within its footprint and on a limited range of lending categories it knows well. This has helped CBU consistently maintain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

While the bank has focused more on organic growth and less on acquisitions in recent years, M&A has historically been a main feature of CBU's growth and is viewed as one of the bank's core competencies. However, in the absence of a favorable M&A environment and in the face of buoyant loan demand resulting from larger competitors being less engaged 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, the second-highest level 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 166% as of 4Q24, which remains below the peer median.

Fitch views positively the return to more rational single-digit growth in 2024, and we expect that loan growth will continue to moderate in 2025. This moderation in organic loan growth drove the revision of the Rating Outlook on CBU's Risk Profile score to Stable from Negative, which in turn drove the same Outlook revision to the overall rating.

Recent 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 to unforeseen events that may 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, Combans

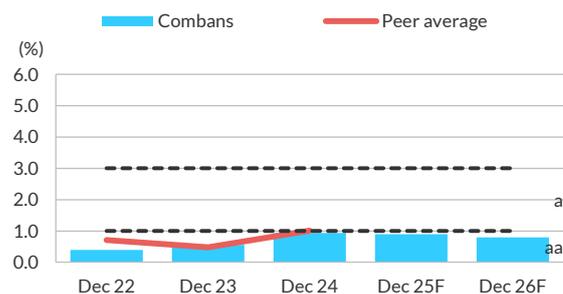
## Financial Profile

### 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 the bank to be selective in its underwriting. CBU has also tended to focus on a narrower band of lending segments in markets it knows well. As a result, the bank's asset quality metrics continued to perform better than the peer median through the pandemic, as well as more recently, remaining in line with historically low levels. Fitch notes that much of recent loan growth has been in commercial lending segments, including some riskier segments such as commercial real estate and construction, which we view cautiously. Fitch expects that underwriting will continue to follow the disciplined standards the bank has historically applied, despite higher growth. The risks of these higher commercial loan exposures are partially offset by the greater balance they provide to the portfolio, as the split between consumer and commercial lending nears parity. While individual commercial loans tend to be larger, the loan portfolio still has good granularity.

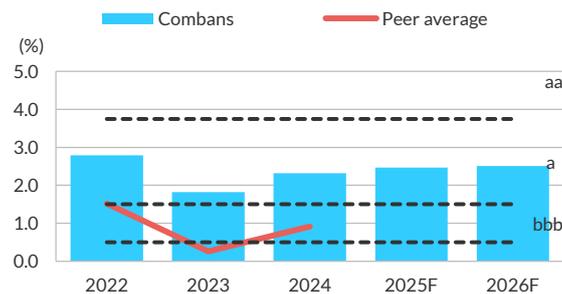
Following two years of consecutive double-digit organic loan growth, Fitch views the moderation of growth in 2024 positively. At 7.5%, organic growth remained above the historical trend for CBU; however, we note that average annual growth during the three-year period ended in 2024, of 12.4%, roughly approximated the 12.2% growth for three-year period prior to the pandemic (2017 to 2019), when acquisitions were a larger component. That said, a sizeable portion of the portfolio remains unseasoned, and the growth precedes a period of greater economic uncertainty. While continued normalization of asset quality from cyclical lows is likely, the regional economy of CBU's footprint has typically avoided the large peak-to-trough variations more typically seen in faster-growing regions, which has helped CBU produce lower realized losses than peers through periods of economic uncertainty.

### Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

### Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

### 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 of CBU's size. These businesses, with the benefits administration business chief among them, tend to be less rate-sensitive and more predictable. Although Fitch notes that fee structures for the BPAS business are asset-driven to a greater extent than in the past, making them less of a countercyclical buffer to earnings. Earnings stability is also promoted by a more stable, albeit slower-growing, regional economy. Greater revenue diversity has helped sustain profitability, despite the \$52.3 million loss incurred as the bank restructured its balance sheet in early 2023. Despite the loss, the bank's ratio of operating income to RWAs, of 1.77%, remained above the peer median of 1.37%, helped by the greater proportion of revenue from CBU's RWA-light non-bank businesses. The ratio rebounded to 2.32% under more normal circumstances in 2024 despite sustained investment in personnel and technology, returning to the upper range among peers.

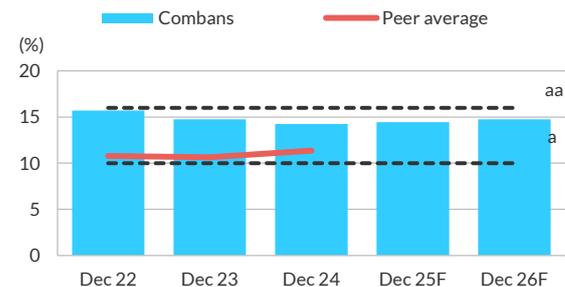
CBU operates a fairly large number of branches for a bank of its size, as it operates in less densely populated markets that are spread out over a relatively large geographic region. Despite this, expenses are generally well managed, with an efficiency ratio typically in the low-mid-60% range.

### Capitalization 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 CBU will be more judicious in choosing to execute transactions. CBU continues to focus on achieving solid growth in its non-bank businesses, which are much less capital intensive. Fitch expects that CBU will continue to maintain a dividend payout near historical levels, consistent with its track record of increasing its dividend for 33 consecutive years.

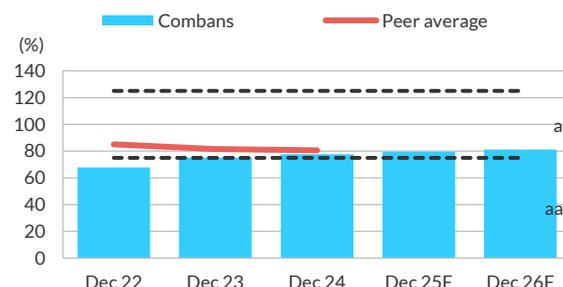
CBU's regulatory capital levels continue to be robust. The bank's CET1 capital ratio has consistently been at the higher end of both its peer group and Fitch's universe of rated U.S. banks. This is a result of CBU's relatively low RWA density, with loans making up ~64% of total assets. However, we note that this percentage has gradually increased over time. While the bank's CET1 ratio of 14.2% is well above the midtier regional peer median of 11.5%, the bank's TCE ratio remains the lowest in the peer group, under the weight of its longer-duration investment portfolio, which generates significant unrealized AOCI losses. Absent any additional balance sheet restructuring, the unrealized losses are likely to cure gradually, with the effective duration of the securities portfolio at 6.2 years, down from seven years at the end of 2023.

**CET1 Ratio**



Source: Fitch Ratings, Fitch Solutions, banks

**Gross Loans/Customer Deposits**



Source: Fitch Ratings, Fitch Solutions, banks

**Funding and Liquidity**

CBU's strong market presence and relatively limited competition allow it to benefit from strong pricing power and a high proportion of core deposits, which made up 85% of total deposits as of 4Q24. CBU's pricing power was on display during the recent rate-hiking cycle, when it realized a deposit beta of approximately 20%. This results in the lowest cost of interest-bearing deposits in the peer group, and when combined with noninterest bearing deposits comprising 27% of total deposits, resulted in the bank achieving the lowest overall cost of deposits in the group, at 1.24%, significantly below the peer median of 2.47% at 4Q24.

The bank also has access to significant contingent liquidity of approximately \$5.8 billion, consisting of \$1.2 billion in borrowing capacity from the Federal Home Loan Bank, \$2.7 billion of Federal Reserve Bank discount window capacity and \$1.7 billion of unpledged investment securities. In total, cash and contingent funding equal a robust 240% of uninsured deposits.

**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.

## Financials

### Financial Statements

	Dec. 31, 2024	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
	12 months	12 months	12 months	12 months
	(USD Mil.)	(USD Mil.)	(USD Mil.)	(USD Mil.)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
<b>Summary income statement</b>				
Net interest and dividend income	449	437	421	374
Net fees and commissions	242	219	219	211
Other operating income	55	-5	40	36
Total operating income	746	652	679	621
Operating costs	486	468	420	387
Pre-impairment operating profit	260	184	260	233
Loan and other impairment charges	23	11	15	-9
Operating profit	237	173	245	242
Other non-operating items (net)	-1	-4	-5	-1
Tax	54	36	52	52
Net income	183	132	188	190
Other comprehensive income	9	130	-636	-113
Fitch comprehensive income	191	262	-448	77
<b>Summary balance sheet</b>				
<b>Assets</b>				
Gross loans	10,434	9,705	8,809	7,374
- of which impaired	98	54	36	48
Loan loss allowances	79	67	61	50
Net loans	10,355	9,638	8,748	7,324
Interbank	-	-	-	-
Derivatives	3	0	0	0
Other securities and earning assets	4,219	4,165	5,315	4,979
Total earning assets	14,576	13,804	14,063	12,303
Cash and due from banks	197	191	210	1,875
Other assets	1,613	1,561	1,563	1,374
Total assets	16,386	15,556	15,836	15,553
<b>Liabilities</b>				
Customer deposits	13,442	12,928	13,012	12,911
Interbank and other short-term funding	380	358	1,115	325
Other long-term funding	619	408	23	5
Trading liabilities and derivatives	3	-	0	0
Total funding and derivatives	14,443	13,693	14,150	13,241
Other liabilities	180	165	134	211
Preference shares and hybrid capital	-	-	-	-
Total equity	1,763	1,698	1,552	2,101
Total liabilities and equity	16,386	15,556	15,836	15,553
Exchange rate	USD1 = USD1	USD1 = USD1	USD1 = USD1	USD1 = USD1

Source: Fitch Ratings, Fitch Solutions

## Key Ratios

	Dec. 31, 2024	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2021
<b>Ratios (%; annualized as appropriate)</b>				
<b>Profitability</b>				
Operating profit/risk-weighted assets	2.3	1.8	2.8	3.4
Net interest income/average earning assets	3.0	3.1	2.9	2.8
Non-interest expense/gross revenue	65.2	71.8	61.8	62.4
Net income/average equity	10.8	8.3	10.9	9.2
<b>Asset quality</b>				
Impaired loans ratio	0.9	0.6	0.4	0.7
Growth in gross loans	7.5	10.2	19.5	-0.6
Loan loss allowances/impaired loans	80.5	123.1	172.1	104.0
Loan impairment charges/average gross loans	0.2	0.1	0.2	-0.1
<b>Capitalization</b>				
Common equity Tier 1 ratio	14.2	14.8	15.7	18.6
Fully loaded common equity Tier 1 ratio	14.2	14.8	15.7	18.6
Fitch Core Capital ratio	—	—	—	—
Tangible common equity/tangible assets	5.6	5.5	4.3	8.4
Basel leverage ratio	9.2	9.3	8.8	9.1
Net impaired loans/common equity Tier 1	1.3	-0.9	-1.9	-0.1
Net impaired loans/Fitch Core Capital	—	—	—	—
<b>Funding and liquidity</b>				
Gross loans/customer deposits	77.6	75.1	67.7	57.1
Gross loans/customer deposits + covered bonds	—	—	—	—
Liquidity coverage ratio	—	—	—	—
Customer deposits/total non-equity funding	93.1	94.4	92.0	97.5
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	Negative
Support stance	Negative
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Positive
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.

	key driver	0	issues	5	ESG Relevance to Credit Rating
	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.	n.a.	5
Energy Management	1 n.a.	n.a.	n.a.	4
Water & Wastewater Management	1 n.a.	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1 n.a.	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

**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. Scores of 3, 4 or 5) and provides a brief explanation for the score.

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.	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

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

Governance (G) Relevance Scores

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

CREDIT-RELEVANT ESG SCALE	
How relevant are E, S and G issues to the overall credit rating?	
5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

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

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