FitchRatings

Banks
Universal Commercial Banks
Nigeria

FBN Holdings Plc

Key Rating Drivers

Standalone Strength Drives IDRs: The Issuer Default Ratings (IDRs) of FBN Holdings Plc (FBNH) are driven by its intrinsic creditworthiness, as defined by its 'b-' Viability Rating (VR). The VR considers the constraint of a challenging operating environment in Nigeria, pressure on asset quality and profitability and relatively low capital buffers, but also FBNH's leading banking franchise and solid funding profile.

Negative Outlook: The Negative Rating Outlook on FBNH's Long-Term IDR reflects our expectations of sustained downside risks to asset quality, earnings and capitalisation from the economic fallout of the pandemic on the bank's large customer base.

Weak Capital Position: Capitalisation is considered weak and has a high influence on the ratings. The total capital adequacy ratio (CAR) of FBNH's main operating subsidiary, First Bank of Nigeria Limited (FBN) was only 70bp above the regulatory minimum at end-9M20 (excluding interim profits for the period). Capitalisation will remain vulnerable to asset-quality risks, with FBNH's unreserved impaired loans at a fairly high 15% of Fitch Core Capital (FCC) at end-9M20.

Asset Quality Pressures: FBNH's impaired (Stage 3 under IFRS 9) loan ratio improved to 8.8% at end-9M20 from its peak of 25.9% at end-2018, primarily owing to large write-offs, but remains above the peer average. As a result of write-offs, FBNH's loan-loss coverage ratio dropped to a low 47% at end-9M20 from 72% at end-2018. We expect FBNH's impaired loan ratio to rise moderately in 2021 given the economic downturn and the ending of debt relief measures.

Low Profitability Metrics: FBNH's profitability metrics lag behind those of the other large Nigerian banks, as shown by an annualised operating profit/average total assets ratio of 1.2% in 9M20 compared to a sector average of 2.4%. This is mainly due to high loan impairment charges (LICs) that consumed 42% of pre-impairment operating profits in 9M20.

Leading Franchise: FBN is the oldest and third-largest bank in Nigeria, with an estimated market share of 16% of domestic credit. Core revenue generation has been resilient in recent years and funding costs have remained low, which highlights FBNH's strong domestic franchise.

Solid Funding Profile: FBNH's liquidity profile is adequate with a Fitch-calculated loans/customer deposits ratio of 46% at end-9M20 (end-2019: 48%). FBNH has been hit hard by the Central Bank of Nigeria's cash reserve requirement (CRR) policy, with around NGN1.5 trillion/USD4 billion placed with the regulator at zero interest rates. FBNH places any excess liquidity in government securities. FBNH has a good record in managing its foreign currency (FC) liquidity, boosted by FBN's issuance of a USD350m senior unsecured bond in October.

FBNH Ratings Equalised: FBNH's ratings are equalised with the consolidated risk assessment of the group given the absence of double leverage at the holding company level and high capital and liquidity fungibility within the group.

National Ratings: FBNH's National Ratings are lower than large Nigerian peers' due to its comparatively weaker financial profile, specifically its asset-quality and capitalisation.

Rating Sensitivities

Downside Potential: A negative rating action would likely reflect further deterioration in FBNH's asset-quality metrics, exerting further pressure on its modest capitalisation.

Upside Potential: Positive rating action would be dependent on FBNH strengthening its capitalisation and continuing to reduce its net impaired loan ratio.

Ratings

Foreign Currency	
Long-Term IDR	B-
Short-Term IDR	B
Viability Rating	b-
Support Rating	5
Support Rating Floor	No Floor
National	
Long-Term Rating	BBB(nga)
Short-Term Rating	F2(nga)
Sovereign Risk	
Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B
Country Ceiling	B

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 (February 2020)

National Scale Rating Criteria (June 2020)

Related Research

What Investors Want to Know: Nigerian Banks (December 2020)

Fitch Ratings 2021 Outlook: African Banks (December 2020)

Fitch Affirms FBN Holdings Plc at 'B-'; Off Rating Watch; Outlook Negative (October 2020)

Fitch Assigns FBN Finance Company BV's Senior Note Participation Notes Final 'B-' Rating (October 2020)

Fitch Revises Nigeria's Outlook to Stable, Affirms at 'B' (September 2020)

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Issuer Ratings

FBN Holdings Plc

Rating level	Rating	Outlook
Long-term foreign-currency IDR	B-	Negative
Short-term foreign-currency IDR	B	
Viability rating	b-	
Support rating	5	
Support rating floor	NF	
National long-term rating	BBB(nga)	
National short-term rating	F2(nga)	

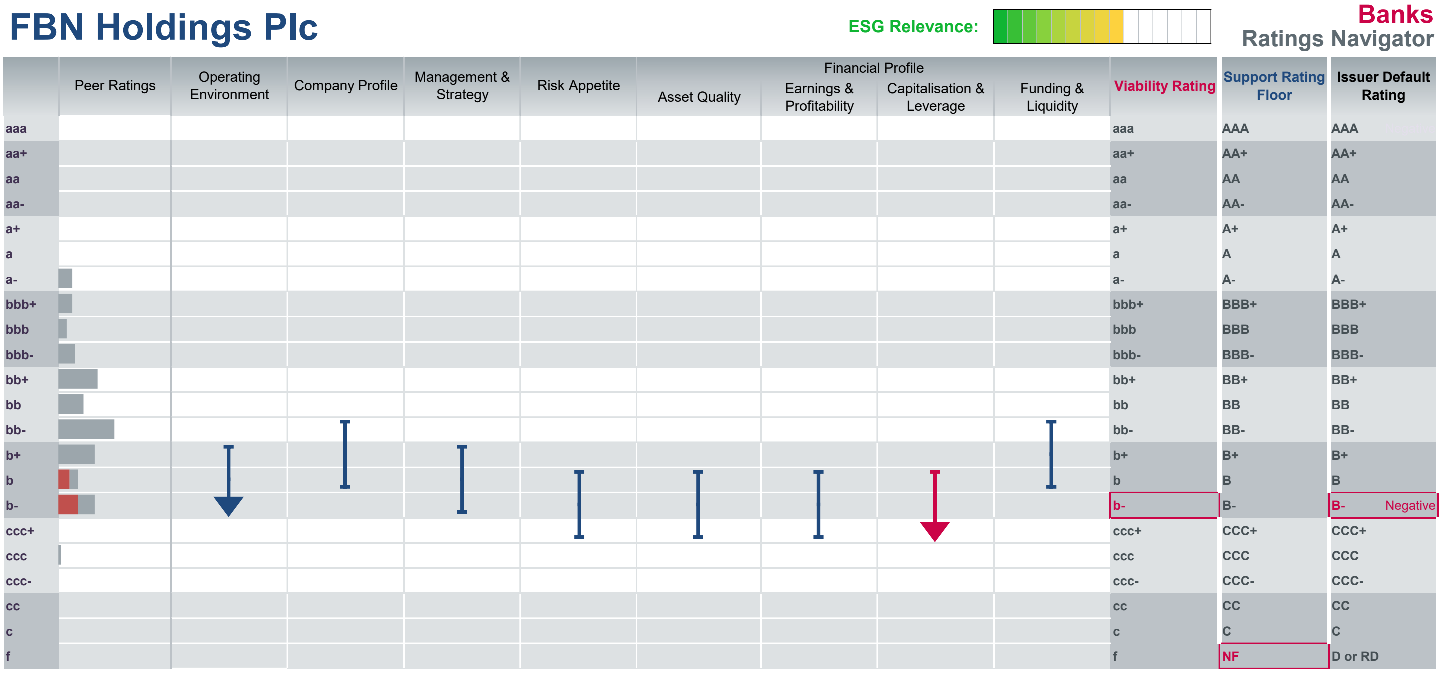
Source: Fitch Ratings.

First Bank of Nigeria Ltd

Rating level	Rating	Outlook
Long-term foreign-currency IDR	B-	Negative
Short-term foreign-currency IDR	B	
Viability rating	b-	
Support rating	5	
Support rating floor	NF	
National long-term rating	BBB(nga)	
National short-term rating	F2(nga)	
FBN FINANCE Company B.V senior unsecured debt	B-	

Source: Fitch Ratings.

Ratings Navigator - Standalone Assessment



Sovereign Support Assessment

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

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

High Propensity to Support; Weak Ability

Fitch considers the authorities' propensity to support the Nigerian banking system to be high and there is a record of recent support across the sector. However, we believe sovereign support for commercial banks cannot be relied upon, given Nigeria's weak ability to support, particularly in FC. The Support Rating Floors of all commercial banks are at 'No Floor' and all Support Ratings are at '5', reflecting our view that senior creditors cannot rely on receiving full and timely extraordinary support from the authorities should a bank become non-viable.

Significant Changes

Rating Watch Negative (RWN) Removed; Negative Outlook

The removal of FBNH's Long-Term IDRs, Viability Rating (VR) and National Ratings from RWN in October reflects Fitch's view of receding near-term risks to its credit fundamentals from the economic fallout arising from the oil price crash and coronavirus pandemic. The Negative Rating Outlook on FBNH's Long-Term IDR reflects its relatively low capital buffers and ongoing pressures on asset quality and profitability, which make its credit profile more vulnerable to prevailing operating conditions.

Easing of Operating Environment Pressures

Operating conditions for Nigerian banks will remain difficult in 2021 but the risk of severe shocks has abated. Fitch maintains a Negative Rating Outlook on the banks' Operating Environment assessment despite the Rating Outlook on Nigeria's sovereign rating of 'B' being revised to Stable in September. We believe a more stressed scenario could be triggered if there were a resurgence in domestic and global coronavirus infections, resulting in another lockdown and further severe disruption to businesses and households. Other downside operating environment risks that could materialise and have a rating impact include a further fall in oil prices, a significant devaluation of the naira, widespread social unrest or political and policy uncertainty.

Fitch forecasts a subdued economic recovery in 2021 (real GDP growth of 1.3% compared to the expected contraction of 3% in 2020).

The government's coronavirus response has ensured financial stability. The Central Bank of Nigeria's (CBN) debt relief measures have allowed banks to restructure loans to the oil, agriculture and manufacturing sectors, thereby alleviating near-term asset-quality pressures.

The CBN has provided regulatory forbearance on loan classification for coronavirus-related restructured loans. As a result, most of the banks' debt relief loans remain classified as Stage 1 under IFRS 9. We expect impaired loans to rise moderately faster in 2021, reflecting the spill-over from the 2020 downturn and the gradual easing of debt relief measures. The true extent of asset quality deterioration from the crisis will be masked by high volumes of loan restructuring. Though the CBN has not provided liquidity support to banks, it has stated it stands ready to provide liquidity backstops as and when required. In May, the CBN reduced the monetary policy rate to 12.5% (from 13.5%), while retaining the CRR at 27.5% and the liquidity ratio at 30%. The CBN committed to maintaining the minimum regulatory loan-to-deposit ratio (LDR) of 65% to ensure credit continues to flow to the real economy.

Resumption of Loan Growth

With legacy asset-quality weaknesses gradually being resolved, FBNH has refocused on business expansion. We expect the bank's loan book to grow by around 5%-8% per annum over the next two years (9M20: +11%), which is a notable increase given that its loan book contracted by 7% annually on average in 2017-2019. We do not expect management to deviate from the more cautious underwriting strategy adopted since 2016, although FBN's (bank only) LDR of 48.2% at end-9M20 was significantly below the minimum 65% required.

Disposal of Insurance Business

In June 2020, FBNH divested its 65% stake in FBN Insurance Limited to its existing JV partner in the business, South-Africa based Sanlam (PTY) Limited. The insurance company accounted for a relatively high 9.8% of FBNH's consolidated pre-tax profit and 1.8% of total assets at end-2019. The proceeds of the sale were used by FBNH to strengthen FBN's core capital. The sale of a core subsidiary is negative from a diversification perspective but does not affect our assessment of FBNH's overall franchise strength.

Eurobond Issuance

FBN was the only Nigerian bank to issue a Eurobond in 2020, having raised a five-year USD350 million 8.625% senior unsecured note in October through a Netherlands-based special purpose vehicle, FBN Finance Company BV. The proceeds will be used for general corporate purposes including the refinancing of existing borrowing.

Company Summary and Key Qualitative Assessment Factors

Top-Tier Franchise

FBNH is the bank holding company of a diversified financial services group. Formed in 1894 as the Bank for British West Africa, FBN is Nigeria's oldest bank. FBN is the main operating entity within FBNH and is Nigeria's leading retail bank, with about 16 million active customer accounts and the country's largest retail deposit base.

FBNH's retail franchise is supported by the largest branch network in the country and alternative delivery channels, including digital and agency banking. FBNH has a market share of domestic credit of 16%. The CBN classifies the bank as a domestic systemically important bank (D-SIB). FBNH's other subsidiaries operate within merchant banking, capital markets and insurance brokerage services.

Fitch rates both FBNH and FBN using FBNH's consolidated financials. FBNH was incorporated in 2012 as a listed bank holding company, following CBN regulations requiring the separation of banking and non-banking activities. Liquidity and capital are relatively fungible across the group, in our view.

FBN accounted for 94% of FBNH's end-2019 total assets and 85% of its pre-tax profits. The bank's activities are split into retail banking, corporate banking, commercial banking, public-sector banking and treasury. In 2019, retail banking generated roughly 40% of FBNH's pre-tax profit.

FBNH's company profile benefits from geographical diversification with subsidiaries in the United Kingdom and in six African countries.

Execution Hampered by Legacy Asset Quality Issues and Weak Efficiency

FBNH generates robust core revenue underpinned by its franchise strength. However, its performance remains affected by high LICs. Management has achieved its objective of decreasing FBNH's impaired loans ratio to below 10% (8.8% at end-9M20 from a peak 25.9% at end-2018), although it remains above the sector average. The bank's performance is also hampered by its high cost-income ratio of 65.6% in 9M20.

Lower Risk Appetite

FBNH has adopted a more conservative risk appetite since the start of its asset-quality problems in 2016. Changes to risk management commenced in 2017, including a full review of the bank's risk-management framework, systems and processes, which are now broadly in line with its direct peers.

FBNH, nevertheless, shows persistently high credit concentrations by industry and borrower. On the former, we estimate that FBNH's net loans to the oil and gas sector and the 20 largest borrowers represented 90% and 180% of FCC at end-9M20, which are high by sector standards.

FBNH's most significant market risk is foreign exchange-rate risk, similar to the peer group. This has improved in our view, with FBNH reporting a long FC open position equivalent to 23% of FCC at end-2019, compared to 44% at end-2018.

The bank is structurally exposed to a rise in interest rates (assuming no action is taken) with a 1% reduction in rates reducing 2019 net interest income by approximately 11% (equivalent to 1.3% of end-2019 FCC).

Summary Financials and Key Ratios

	30 Sep 20		31 Dec 19	31 Dec 18	31 Dec 17
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(NGNbn)	(NGNbn)	(NGNbn)	(NGNbn)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	517	196.4	294.6	286.5	333.6
Net fees and commissions	192	73.0	83.8	75.4	62.3
Other operating income	133	50.4	60.5	49.3	45.2
Total operating income	843	319.8	438.9	411.2	441.1
Operating costs	553	209.8	305.8	266.5	238.2
Pre-impairment operating profit	290	110.0	133.1	144.7	202.9
Loan and other impairment charges	123	46.7	49.9	79.4	148.5
Operating profit	167	63.3	83.2	65.3	54.4
Other non-operating items (net)	36	13.8	0.2	-0.1	-7.7
Tax	24	9.0	9.8	5.5	9.0
Net income	180	68.2	73.7	59.7	37.7
Other comprehensive income	12	4.7	69.3	-1.5	64.2
Fitch comprehensive income	192	72.8	142.9	58.1	101.9
Summary balance sheet					
Assets					
Gross loans	5,646	2,142.7	1,931.3	2,069.3	2,280.4
- Of which impaired	n.a.	n.a.	197.0	535.0	520.0
Loan loss allowances	233	88.5	78.9	385.5	279.2
Net loans	5,413	2,054.3	1,852.4	1,683.8	2,001.2
Interbank	2,149	815.6	754.9	863.4	742.9
Derivatives	197	74.6	38.4	17.8	23.0
Other securities and earning assets	5,760	2,185.9	2,127.6	2,068.1	1,523.3
Total earning assets	13,519	5,130.4	4,773.3	4,633.1	4,290.4
Cash and due from banks	4,617	1,752.0	1,025.3	653.3	641.9
Other assets	951	360.9	404.9	281.9	304.3
Total assets	19,086	7,243.2	6,203.5	5,568.3	5,236.5
Liabilities					
Customer deposits	12,200	4,630.1	4,019.8	3,486.7	3,143.3
Interbank and other short-term funding	3,822	1,450.6	904.0	945.9	746.4
Other long-term funding	557	211.4	333.6	338.2	420.9
Trading liabilities and derivatives	28	10.5	6.0	15.8	9.4
Total funding	16,608	6,302.6	5,263.4	4,786.6	4,320.1
Other liabilities	602	228.6	279.0	251.1	242.7
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	1,876	712.1	661.1	530.6	673.7
Total liabilities and equity	19,086	7,243.2	6,203.5	5,568.3	5,236.5
Exchange rate		USD1 = NGN379.5	USD1 = NGN307	USD1 = NGN306.31	USD1 = NGN305.5

Source: Fitch Ratings.

Summary Financials and Key Ratios

	30 Sep 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	n.a.	n.a.	n.a.	n.a.
Net interest income/average earning assets	5.2	6.3	6.5	8.2
Non-interest expense/gross revenue	65.6	69.7	64.8	54.1
Net income/average equity	13.2	12.7	9.3	6.1
Asset quality				
Impaired loans ratio	8.8	10.2	25.9	22.8
Growth in gross loans	11.0	-6.7	-9.3	-4.8
Loan loss allowances/impaired loans	46.9	40.1	72.1	53.7
Loan impairment charges/average gross loans	2.6	2.5	3.5	6.4
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	9.3	10.1	8.9	12.3
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	14.9	18.9	30.5	37.6
Funding and liquidity				
Loans/customer deposits	46.3	48.0	59.4	72.6
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	73.6	76.5	73.1	72.9
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings.

Key Financial Metrics – Latest Developments

Renewed Asset Quality Pressures Expected

Fitch expects a moderate rise in FBNH's impaired (IFRS 9 Stage 3) loan ratio in 2021 due to the economic downturn and the expiry of debt relief measures. The rise in impaired loans will be somewhat tempered by steady loan growth, which we expect to be around 5%-8% during 2021-2022 (9M20: 11%).

FBNH's impaired loan ratio improved to 8.8% at end-9M20 (end-2019: 10.2%, end-2018: 25.9%) following large write-offs in 2019 but remains high compared to the peer average. As a result of write-offs, the loan-loss allowance/impaired loan ratio fell to a low 47% at end-9M20 from 72% at end-2018. A build-up of reserves is anticipated to take time.

Additionally, FBNH has a sizeable stock of Stage 2 loans (mainly oil and gas related exposures restructured in 2015/2016), which form about 35% gross loans. This provides a high problem loan (defined as Stage 3 plus Stage 2 loans) ratio above 40% of gross loans at end-9M20.

Our assessment of FBNH's asset quality also captures sizeable investments in relatively liquid, albeit low-yielding, Nigerian government securities and cash placements (including its CRR), which together represented around 50% of total assets at end-9M20.

Impairment Charges Dampen Profits

FBNH's profitability metrics lag behind other large banks with an annualised operating profit/average total assets ratio of 1.2% in 9M20 versus a sector average of 2.4%. This is mainly due to high LICs, which consumed 42% of pre-impairment operating profits in 9M20.

FBNH has been able to absorb high LICs to a large extent because of its core revenue generation capacity. Net interest margins (NIM) were healthy in 9M20 at 5.2% despite pressure on asset yields from the low interest rate environment and high CRR requirements. Pressure on NIMs was offset by a continuing fall in funding costs. Non-interest revenue generation is not as strong as at direct peers but rose to 39% of operating income in 9M20 (2019: 33%) thanks to trading income as well as solid fees and commission income.

Another drag on FBNH's performance is its high cost base, which is likely to improve gradually with automation. In 9M20, net income rose by 32% yoy but this was partly attributable to one-off gains from the sale of the insurance subsidiary (excluding the gain, the rise was only 15%).

Weak Capital Buffers – High Influence on VR

FBN's capital adequacy ratio (CAR) of 15.7% at end-9M20 (excluding interim profits) provides thin buffers above the 15% minimum regulatory requirement. In June 2020, FBN received a NGN25bn equity injection from FBNH following the sale of its insurance subsidiary, which added 100bps to the bank's end-2019 CAR.

Capitalisation remains highly vulnerable to further asset quality deterioration, with unreserved impaired loans measuring at a fairly high 15% of FCC at end-9M20, one of the highest levels among Nigerian rated banks.

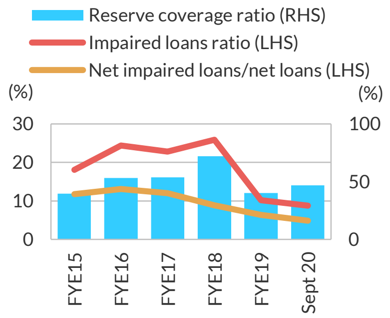
Funding and Liquidity Remain Rating Strengths

FBNH enjoys a solid low-cost customer deposit base reflecting its strong domestic franchise. At end-9M20, customer deposits formed 74% of the group's non-equity funding. The majority were stable current and savings accounts. Other funding comprises interbank deposits (18% of end-9M20 non-equity funding) and medium-term borrowing.

FBNH's liquidity profile in local currency is strong, with a Fitch-calculated loans/customer deposits ratio of 46% at end-9M20 (end-2019: 48% and end-2018: 59%). Local-currency liquidity (excluding the CRR) is ample, with excess liquidity placed in government securities.

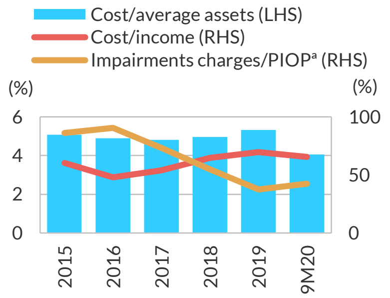
FBNH has a good record in managing its FC liquidity, boosted by FBN's recent USD350m senior unsecured bond issuance. FBNH's FC funding is largely short-term on a contractual basis, with FC customer deposits (typically demand or 1-3 months) and off-balance sheet obligations (mainly trade-finance) representing the bulk. On a behavioural basis, funding gaps are more manageable, with additional contingent / undrawn credit lines supporting the bank's liquidity profile.

Asset Quality



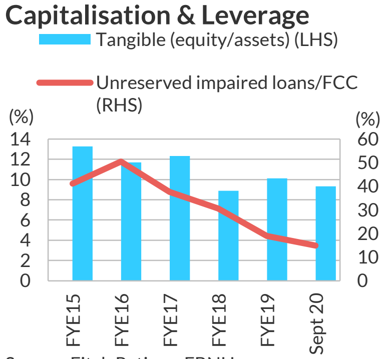
Source: Fitch Ratings, FBNH, Central Bank

Performance Metrics



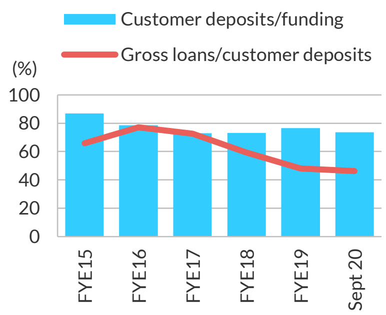
[a] Pre-impairment operating profit
Source: Fitch Ratings, FBNH

Capitalisation & Leverage



Source: Fitch Ratings, FBNH

Funding Profile



Source: Fitch Ratings, FBNH, Central Bank

Environmental, Social and Governance Considerations

Unless otherwise stated, the highest level of ESG credit relevance is a score of ‘3’. ESG issues are credit-neutral or have only a minimal credit impact on FBNH, either due to their nature or the way in which they are being managed by the group. For more information on Fitch’s ESG Relevance Scores, visit www.fitchratings.com/esg.

FitchRatings **FBN Holdings Plc**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

FBN Holdings Plc has 5 ESG potential rating drivers

- FBN Holdings Plc 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.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
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	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	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; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	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	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

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

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

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

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

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

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 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.