FitchRatings

Banks
Universal Commercial Banks
Nigeria

Zenith Bank Plc

Key Rating Drivers

Standalone Strength Drives IDRs: Zenith Bank Plc's Issuer Default Ratings (IDRs) are driven by its standalone creditworthiness, as expressed by its Viability Rating (VR). The VR reflects the constraint of a challenging operating environment, but also healthy profitability and solid capital buffers, which provide good capacity to absorb credit losses from the downturn.

Stable Outlook: The Stable Outlook on Zenith's Long-Term IDR reflects Fitch Ratings' view that the bank's rating has sufficient headroom at this level to absorb moderate shocks from sustained downside risks to the operating environment, the heightened level of risk in doing banking business and resulting risks to its financial performance over the next 12 to 18 months.

Strong Franchise: Zenith is Nigeria's second-largest banking group by assets, with market shares of domestic banking system assets and customer deposits of 16% and 17%, respectively, at end-2019. Zenith is a top-tier corporate bank with a strategy to grow its retail banking franchise. Its operations are concentrated in Nigeria.

Pressure on Asset Quality: The impaired loans (Stage 3 loans under IFRS 9) ratio increased to 7.6% at end-3Q20 from 6.8% at end-2019 due to the initial impact of the pandemic. Stage 2 loans also increased significantly to a high 19.1% of gross loans following the classification of several large oil exposures. Our assessment of asset quality also considers large holdings of non-loan assets that are dominated by cash items and government debt.

High Credit Concentrations: As a corporate bank, Zenith has high single-borrower concentrations, with the largest 20 customer exposures equivalent to 111% of Fitch Core Capital (FCC) at end-1H20. Sectoral concentration is also high, with loans to the oil and gas sector (primarily the upstream segment) forming 27% of gross loans or 73% of FCC.

Strong Profitability: Zenith will remain profitable despite difficult operating conditions owing to a low cost of funding and strong non-interest income. Headline profitability metrics declined only slightly in 9M20, reflecting resilient pre-impairment operating profit and limited loan impairment charges taken in response to the coronavirus pandemic.

Strong Capitalisation: The FCC ratio (21.6% at end-3Q20) is among the highest in the sector. Zenith's (bank only and transitional IFRS 9 impact) total capital adequacy ratio (CAR; 18.5% at end-3Q20) indicates a healthy buffer above the 16% minimum requirement (including a 1% domestic systemically important bank add-on).

Stable Funding and Strong Liquidity: Funding is mainly in the form of a stable and inexpensive customer deposit base. Single-depositor concentration is lower than peers'. Liquidity coverage is comfortable in both local and foreign currencies.

National Ratings: Zenith's National Ratings reflect its creditworthiness relative to other issuers in Nigeria and are driven by its standalone creditworthiness. They are at the higher end of the scale, reflecting a strong company profile and solid financial metrics.

Rating Sensitivities

Limited Upside Potential: Upside to the ratings is unlikely and would require a material improvement in operating conditions and a sovereign upgrade.

Downside Potential: A downgrade could result from a significant increase in Zenith's impaired loans ratio to above 10% (most likely due to a crystallisation of high credit concentration risks). Ratings are also sensitive to an erosion of its FCC ratio to below 15% for a sustained period or considerable bottom-line losses. A downgrade of Nigeria would also lead to a downgrade given high exposure to the sovereign.

Ratings

Long-Term IDR	B
Short-Term IDR	B
Viability Rating	b
Support Rating	5
Support Rating Floor	NF

National

National Long-Term Rating	AA-(nga)
National Short-Term Rating	F1+(nga)

Sovereign Risk

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

Outlooks

Long-Term IDR	Stable
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

Fitch Affirms Zenith Bank at 'B'; Off Rating Watch Negative, Outlook Stable (October 2020)
Fitch Revises Nigeria's Outlook to Stable; Affirms at 'B' (September 2020)
Nigeria (October 2020)
Fitch Ratings 2021 Outlook: African Banks (December 2020)

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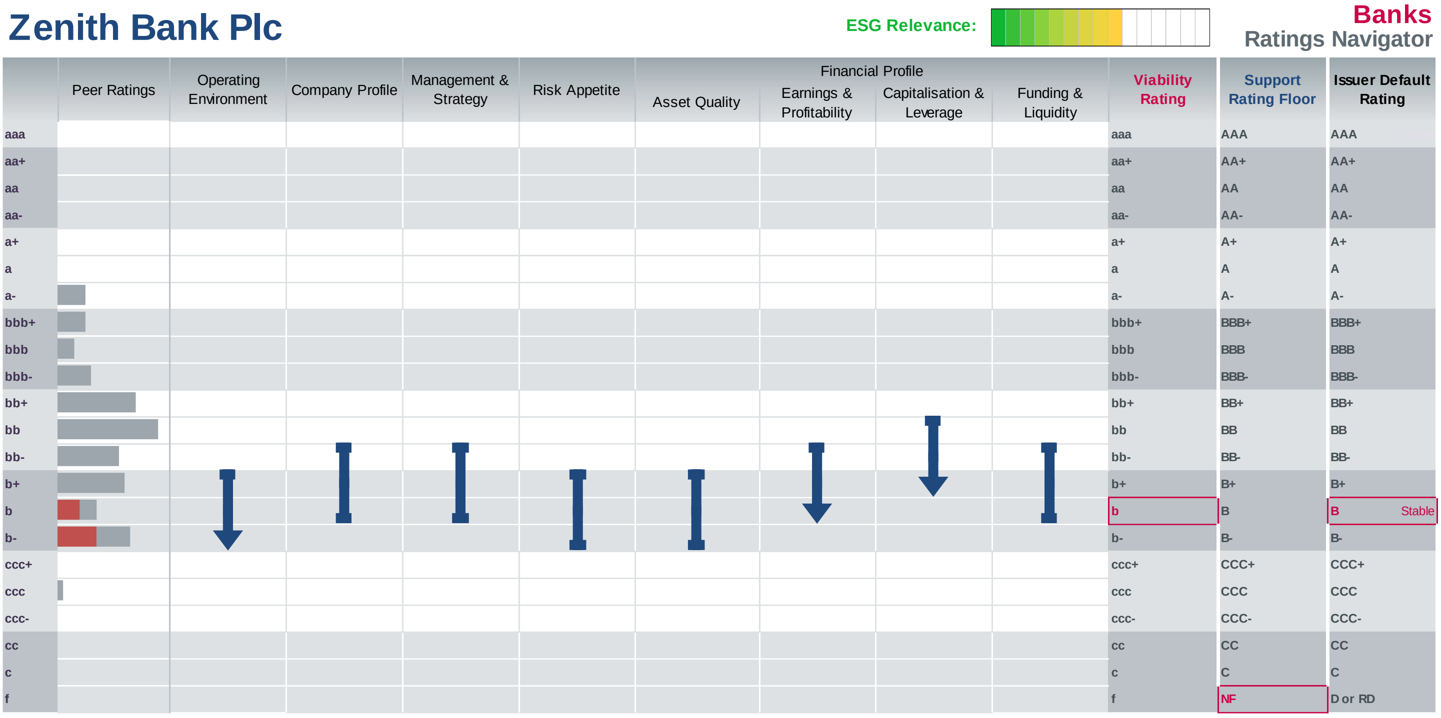
Debt Rating Classes

Rating Level	Rating
Deposit Rating	n.a.
Senior unsecured debt	B
Subordinated debt and other hybrid capital	n.a.
Legacy upper Tier 2 debt	n.a.
Tier 2 subordinated debt	n.a.
Legacy Tier 1 notes	n.a.
Additional Tier 1 notes	n.a.

Source: Fitch Ratings

Senior unsecured debt issued by Zenith is rated at the same level as the bank's Long-Term IDR because we believe the likelihood of default on these notes reflects that of the bank. The Recovery Rating on these notes is 'RR4', indicating average recovery prospects.

Ratings Navigator



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 that sovereign support for commercial banks cannot be relied on given Nigeria's weak ability to support, particularly in foreign currency. 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 Removed

The removal of the Rating Watch Negative on Zenith's Long-Term IDR, VR and National Ratings in October reflects Fitch's view of receding near-term risks to the bank's credit fundamentals from the economic fallout arising from the oil price slump and coronavirus pandemic.

In our opinion, the impact of the economic downturn on Zenith's credit profile is tolerable at the current rating level and it will take several quarters before the full extent of the crisis on corporates and households is seen in its financial metrics. Since the previous rating action in March, regulatory forbearance on asset classification and banks' own debt relief measures have significantly eased pressure on the sector's asset quality. However, debt-relief measures are temporary and with the eventual easing of fiscal and monetary support from the Central Bank of Nigeria (CBN), we see a material risk that banks' asset quality could deteriorate faster, unless economic recovery gathers pace.

The Stable Outlook on Zenith's Long-Term IDR reflects our view that the bank's rating has sufficient headroom at this level to absorb moderate shocks from sustained downside risks to the operating environment, the heightened level of risk in doing banking business and resulting risks to its financial performance over the next 12 to 18 months.

Easing of Operating Environment Pressures

Operating conditions for Nigerian banks will remain difficult over the next 12 to 18 months but the risk of severe shocks has abated. Fitch maintains a negative outlook on the banks' operating environment assessment despite the Outlook on Nigeria's sovereign rating of 'B' being revised to Stable from Negative 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 Nigerian naira, widespread social unrest or political and policy uncertainty.

Fitch forecasts a subdued economic recovery in 2021 (real GDP growth of 1.3% compared with an expected contraction of 3% in 2020). Combined with the stabilisation of oil prices and a resumption of business activity post-lockdown, the near-term pressures for banks are expected to ease. However, other country risks, including foreign-currency shortages, currency devaluation, rising inflation and regulatory intervention by the CBN, will continue to exert negative pressure on the operating environment.

The government's coronavirus-response has ensured financial stability. The CBN's debt-relief measures have allowed banks to restructure loans to the oil, agriculture and manufacturing sectors, thereby alleviating near-term asset-quality pressures. These measures, in addition to financial hedging, have prevented upstream oil exposures from becoming impaired. Oil-related loans have largely dictated banking sector asset quality in recent crises. High oil exposure (26% of private-sector credit at end-May-2020; with the upstream and services segment representing 7%) remains a key risk and a prolonged period of depressed oil prices and production cuts would lead to a sharp rise in impaired loans across the sector.

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 anticipate impaired loans will rise moderately faster in 2021, reflecting the spill-over from the downturn this year 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. Although the CBN has not provided liquidity support for banks, it has stated that it stands ready to provide liquidity backstops if required. In May, the CBN reduced the monetary policy rate to 12.5% from 13.5%, while retaining the cash reserve requirement at 27.5% and the liquidity ratio at 30%. The CBN is committed to maintaining the minimum loans/deposits ratio of 65% to ensure credit continues to flow to the real economy.

Company Summary and Key Qualitative Assessment Factors

Strong Franchise

Zenith is Nigeria's second-largest banking group by assets and accounted for 16% and 17% of domestic banking system assets and customer deposits, respectively, at end-2019. Zenith has a particularly strong franchise in the prime corporate segment. The bank's strategy is to expand its retail and SME franchise, primarily through digital banking, complementing its large network in the country. Management quality is a relative strength.

Activities Concentrated in Nigeria

Nigerian operations accounted for 84% of total assets at end-3Q20 and 86% of profit-after-tax in 2019. Accordingly, the bank's standalone creditworthiness is highly conditioned by the domestic operating environment. Exposure to the Nigerian sovereign through government debt securities is very high relative to capital so the bank cannot be rated above the sovereign on a standalone basis under our *Bank Rating Criteria*.

Zenith's UK subsidiary (9% of assets at end-3Q20) and rest of Africa operations (Gambia, Ghana and Sierra Leone, which represent a combined 7%) provide a small degree of geographical diversification. We expect the contribution of these operations, particularly those in Africa, to increase moderately over the medium term.

Conservative Asset Structure

Net loans accounted for only 34% of of total assets at end-3Q20, reducing exposure to credit risk. The securities book is the second-largest component (28% at end-3Q20) and is dominated by sovereign fixed-income securities. The vast majority of these are Nigerian but the book also includes gilts held at the UK subsidiary. Cash and due from banks formed a high proportion of assets (23% at end-3Q20), reflecting the CBN's high cash reserve requirement policy.

Corporate Lending Focus

The loan book is weighted more towards the corporate segment (76% of gross loans at end-1H20, including public-sector exposure) than large peers', which Fitch considers indicative of a more conservative risk appetite. Lending to the commercial/SME space (20% at end-1H20) and retail (4% at end-1H20) accounts for a moderate proportion of lending but we expect this to increase over the medium term in line with the bank's strategy.

High Credit Concentrations

As for peers, credit concentration is a key risk. Single-borrower concentration is high, with the largest 20 customer exposures (including both funded and unfunded exposures) equivalent to 111% of FCC at end-1H20, making capital vulnerable to the default of large borrowers.

Sectoral concentration is high, with exposure to the oil and gas sector (primarily to the upstream segment) representing 27% of gross loans or 73% of FCC at end-1H20. Upstream exposures have financial hedges, helping producers to withstand short periods of low oil prices. However, high exposure to the sector poses a significant risk in the event of a prolonged period of low oil prices and production cuts.

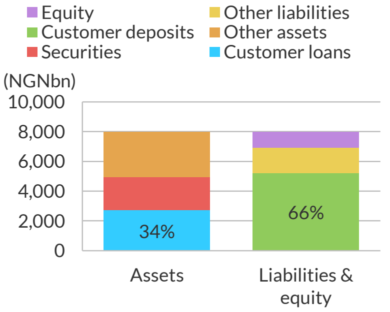
Large Long Net FX Position Mitigates Devaluation Risks

Zenith's balance sheet is highly dollarised, with foreign-currency assets accounting for 42% of total assets at end-1H20. The high degree of dollarisation reflects, principally, the dollarisation of Nigeria's economy, in addition to the foreign-currency assets contribution of foreign subsidiaries.

Zenith runs a large long net open position in foreign currency (on-balance-sheet on a consolidated basis) equivalent to 62% of total equity at end-1H20. As a result, the devaluation of the naira would lead to large currency translation gains, helping to cushion the direct impact of inflated foreign-currency risk-weighted assets on its capital ratios.

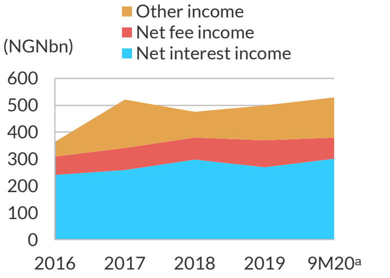
As with some other large banks, Zenith has about USD1 billion (notional value) of foreign-exchange derivatives with the CBN, which represents significant counterparty risk. A devaluation of the naira would lead to fair-value gains on these derivatives through the income statement, providing further support to profitability and capital metrics.

Balance Sheet, Sept-20



Source: Fitch Ratings, Zenith

Revenue Breakdown



[a] Annualised data
Source: Fitch Ratings, Zenith

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	593	225.2	269.0	297.4	258.9
Net fees and commissions	156	59.1	100.1	81.8	82.5
Other operating income	294	111.5	129.9	96.1	179.5
Total operating income	1,043	395.8	499.0	475.3	520.9
Operating costs	517	196.3	232.2	225.5	223.4
Pre-impairment operating profit	526	199.5	266.8	249.8	297.5
Loan and other impairment charges	59	22.5	23.6	18.4	98.2
Operating profit	466	177.0	243.1	231.4	199.3
Other non-operating items (net)	1	0.3	0.1	0.3	0.1
Tax	47	18.0	34.5	38.3	25.5
Net income	420	159.3	208.8	193.4	173.8
Other comprehensive income	55	21.1	5.8	6.3	2.7
Fitch comprehensive income	475	180.4	214.7	199.7	176.5
Summary balance sheet					
Assets					
Gross loans	7,606	2,886.6	2,462.4	2,016.5	2,252.2
- Of which impaired	577	218.9	168.0	181.8	105.9
Loan loss allowances	463	175.6	156.8	193.4	151.8
Net loans	7,144	2,711.0	2,305.6	1,823.1	2,100.4
Interbank	2,136	810.7	707.1	674.3	495.8
Derivatives	149	56.7	92.7	88.8	57.2
Other securities and earning assets	5,877	2,230.2	2,014.2	2,158.8	1,735.8
Total earning assets	15,306	5,808.6	5,119.6	4,745.0	4,389.2
Cash and due from banks	4,741	1,799.1	936.3	954.4	957.7
Other assets	963	365.6	291.0	256.3	248.4
Total assets	21,010	7,973.3	6,346.9	5,955.7	5,595.3
Liabilities					
Customer deposits	13,767	5,224.6	4,262.3	3,690.3	3,437.9
Interbank and other short-term funding	453	172.0	280.1	221.9	69.3
Other long-term funding	2,159	819.4	474.3	1,011.0	1,072.5
Trading liabilities and derivatives	51	19.5	14.8	17.0	20.8
Total funding	16,431	6,235.5	5,031.5	4,940.2	4,600.5
Other liabilities	1,854	703.5	373.5	199.8	182.6
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	2,726	1,034.3	941.9	815.8	812.1
Total liabilities and equity	21,010	7,973.3	6,346.9	5,955.7	5,595.3
Exchange rate		USD1 = NGN379.5	USD1 = NGN307	USD1 = NGN306.31	USD1 = NGN305.5

Source: Fitch Ratings, Fitch Solutions, Zenith Bank Plc

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	5.1	5.8	7.5	6.7
Net interest income/average earning assets	5.5	5.6	6.7	6.3
Non-interest expense/gross revenue	49.6	46.5	47.4	42.9
Net income/average equity	21.9	24.7	25.1	23.5
Asset quality				
Impaired loans ratio	7.6	6.8	9.0	4.7
Growth in gross loans	17.2	22.1	-10.5	-4.6
Loan loss allowances/impaired loans	80.2	93.3	106.4	143.4
Loan impairment charges/average gross loans	0.9	1.3	0.6	4.2
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	21.6	21.9	25.8	26.7
Tangible common equity/tangible assets	12.7	14.5	13.4	14.3
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	4.3	1.2	-1.5	-5.8
Funding and liquidity				
Loans/customer deposits	55.3	57.8	54.6	65.5
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	84.1	85.0	75.0	75.1
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Zenith Bank Plc

Key Financial Metrics – Latest Developments

Pressure on Asset Quality

Zenith's impaired loans (Stage 3 loans under IFRS 9) ratio increased to 7.6% at end-3Q20 from 6.8% at end-2019 as a result of the classification of several loans, in particular oil and gas exposures, as impaired. Specific coverage of impaired loans (49% at end-3Q20) is adequate when regarding collateral coverage and recovery expectations.

Loans restructured under the CBN's forbearance accounted for 18% of gross loans at end-1H20. The majorty (83%) of these loans are to the oil and gas sector, reflecting the bank's high exposure to the upstream segment. Restructurings include a mix of repayment holidays, term extensions and interest rate reductions. Unlike most peers, the bank has classified a proportion of these loans under debt relief as Stage 2, resulting in an increase in Stage 2 loans to 19.1% of gross loans at end-3Q20 from 7.3% at end-2019.

We expect the impaired loans ratio to increase as debt-relief measures end. Despite pressures on the loan book, our asset-quality assessment also considers large holdings of higher-quality non-loan assets (66% of total assets at end-3Q20), which are predominantly in the form of cash and government debt securities.

Strong Profitability

Zenith consistently delivers strong profitability metrics, as highlighted by operating returns over risk-weighted assets that have averaged 6.3% over the past four full years. Strong profitability is supported by a low cost of funding, strong non-interest income and low loan impairment charges experienced in recent years relative to peers.

Headline profitability metrics declined only slightly in 9M20, explained by resilient pre-impairment operating profit and limited loan impairment charges taken in response to the coronavirus pandemic. The reduction in interest rates (including the collapse in yields on government securities) was mitigated by a decline in cost of funding, whereas a drop in net fees and commissions was partly offset by strong trading income and currency revaluation gains.

Loan impairment charges will increase in 2021 as asset-quality pressures materialise but we expect profitability metrics to remain solid on account of strong revenue generation.

Strong Capitalisation

Zenith's FCC ratio (21.6% at end-3Q20) declined slightly during 9M20 due to strong loan growth and the devaluation of the naira but remains among the highest in the sector. We do not expect a material decline in the ratio. Leverage also compares favourably with peers', with the bank's tangible common equity/tangible assets ratio at 12.7% at end-3Q20. High capital metrics, in addition to solid pre-impairment operating profit, provide for strong loss absorption capacity.

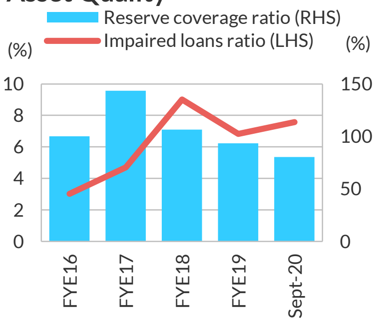
Zenith's (bank only and transitional IFRS 9 impact) CAR of 18.5% at end-3Q20 indicates a healthy buffer above the 16% minimum requirement (including a 1% domestic systemically important bank add-on). Total regulatory capital is supported by Tier 2 capital (mainly in the form of capital-qualifying subordinated debt), which contributes about 40bp to the CAR.

Stable Funding Profile and Strong Liquidity Coverage

The funding profile is dominated by customer deposits (84% of total funding at end-3Q20). The deposit base comprises a high proportion of current and savings accounts deposits (92% at end-3Q20), supporting a stable and inexpensive funding profile. The deposit base also comprises a moderate amount of retail deposits (32% at end-1H20) and deposits from commercial/SME customers (41%) which provide further funding stability. Positively, the proportion of retail and commercial/SME has increased significantly recently, in line with management strategy, which has contributed to a material decline in cost of funding. Single-depositor concentration is low compared to peers'.

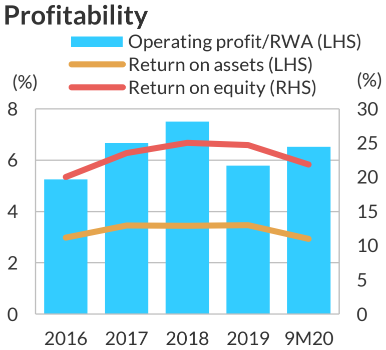
Zenith has a low Fitch-calculated loans/customer deposits ratio (55% at end-3Q20), reflecting a liquid assets structure. Liquidity coverage is strong in both local and foreign currencies.

Asset Quality



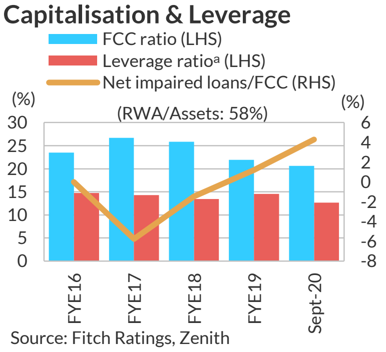
Source: Fitch Ratings, Zenith

Profitability



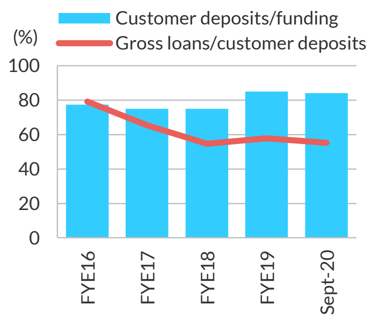
Source: Fitch Ratings, Zenith

Capitalisation & Leverage



Source: Fitch Ratings, Zenith

Funding Profile



Environmental, Social and Governance Considerations

FitchRatings **Zenith Bank Plc**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Zenith Bank Plc has 5 ESG potential rating drivers

- Zenith Bank 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
not a rating driver	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.

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