

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 defined by its Viability Rating (VR).

The VR is influenced by Nigeria's operating environment because the majority of Zenith's activities are domestic. The fragile economy and regulatory risks constrain the bank's growth prospects and put pressure on asset quality. Zenith's VR is among the highest in Nigeria; this reflects its strong company profile, track record of execution and profitability, as well as sound capitalisation, liquidity and funding. It also takes into account good asset quality metrics.

Strong Company Profile: Zenith has an overall market share of about 16% in Nigeria. The franchise is particularly strong in the prime corporate segment.

Strong Execution: Fitch has a high opinion of Zenith's management team and there is little reliance on key individuals. Achieving targets in a volatile operating environment can be difficult, but Zenith's execution is strong relative to peers'. Zenith intends to expand and gain market share in retail banking, which is a fairly new segment for the bank. This would also help meet the Central Bank of Nigeria's (CBN) objective for Nigerian banks to resume lending.

Weaker Asset Quality: Zenith's impaired loans (Stage 3) ratio was 9.3% at end-9M19, in line with the sector average, but above historical levels. Loan loss allowance coverage of impaired loans fell to 78%, albeit still acceptable. The CBN's new rules on a minimum loans/deposits ratio (LDR) could result in higher impairments if Zenith's risk appetite rises materially.

Sound Capital Buffers: Zenith's capital adequacy ratios are among the strongest in Nigeria and leverage ratios have been historically stable. Sound capital buffers are necessary given high country risks as well as Zenith's fairly large foreign currency loan book (40% of gross loans at end-9M19) and large credit concentrations by obligor and industry.

Consistently Strong Profitability: Zenith's strong franchise and its ability to gather low cost customer deposits and deploy these in good quality loans and securities are relative strengths. The bank's healthy profits are also underpinned by high non-interest revenue generation and low loan impairment charges (relative to pre-impairment operating profit).

Strong Funding, Well-Managed Liquidity: Customer deposits provide the bulk of funding but include significant less-stable domiciliary deposits (30% of total customer deposits at end-9M19). Deposits from corporate customers (including the public sector) represent about 40% of total deposits, with retail and SME deposits both at 30%. Retail deposits are increasing and bring stability to Zenith's funding base. Zenith has very good balance-sheet liquidity and is able to tap market funding with relative ease.

National Ratings: Zenith's National Ratings reflect its creditworthiness relative to other issuers in Nigeria and are driven by its standalone strength. They are among the highest in Nigeria, reflecting Zenith's franchise strengths and consistently strong financial metrics.

Rating Sensitivities

Downside Potential: A downgrade of Zenith's Long-Term IDR could result from renewed deterioration in its operating environment, particularly if it leads to a material deterioration in asset quality and capitalisation.

Upside Potential: An upgrade of Zenith's Long-Term IDR is unlikely in the current operating environment. It would require an upgrade of the sovereign rating given the close links between Zenith's risk profile and the Nigerian sovereign.

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

Sovereign Risk

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

Outlooks/Watches

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

Applicable Criteria

[Bank Rating Criteria \(October 2018\)](#)

[Short-Term Ratings Criteria \(May 2019\)](#)

[National Scale Ratings Criteria \(July 2018\)](#)

Related Research

[Nigeria \(June 2019\)](#)

[Nigerian Banks: 2019 Peer Review \(July 2019\)](#)

Analysts

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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

The ratings of senior unsecured obligations are in line with the bank's IDRs. We view the likelihood of default on Zenith's senior unsecured obligation as the same as the likelihood of the bank defaulting (as reflected by the Long-Term IDR). Default on any material class of senior unsecured obligations would be treated as a default of Zenith.

Ratings Navigator – Standalone Assessment

Zenith Bank Plc

ESG Relevance:

Banks
Ratings Navigator

	Peer Ratings	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity	Viability Rating	Support Rating Floor	Issuer Default Rating
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-
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+ Stable
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	NF	D or RD

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

Sovereign Support Assessment

High Propensity to Provide Support; Weak Ability

Fitch considers the authorities' propensity to support the banking system to be high and there is a record of recent support across the sector.

However, Fitch believes that sovereign support to Nigerian banks cannot be relied on given Nigeria's (B+/Stable) weak ability to provide support, particularly in foreign currency. The banking sector is small by international standards (at about 30% of GDP), but government finances remain weak. Therefore, the Support Rating Floor of all Nigerian banks is at 'No Floor' and all Support Ratings are at '5'. This reflects our opinion that senior creditors cannot rely on receiving full and timely extraordinary support from the Nigerian sovereign if any of the banks become non-viable.

Significant Changes

Minimum Loans-to-Deposit Ratio of 65%

Loan growth for the sector remained weak in 2018 (only 1% for Fitch-rated banks) due to several factors including still weak operating conditions, banks still struggling with asset quality problems and the crowding out of private sector credit from investments in high yielding government securities.

In order to encourage banks to resume lending (particularly to consumers and SMEs) and therefore stimulate economic growth, the CBN has introduced a minimum loans to deposits ratio (LDR), set initially at 60% for end-September 2019, and subsequently increased to 65% to be met by end-December 2019. The LDR is effectively a loans-to-funding ratio as the denominator includes all funding, except interbank borrowing. Banks that miss the threshold are required to place additional unremunerated cash reserve requirements (CRR) equal to 50% of the LDR lending shortfall. The additional CRR will be refunded when they meet the LDR requirement.

Zenith's LDR at end-9M19 was 51% and Zenith was one of 12 banks that failed to meet the threshold. As a result, it had to place additional CRR of NGN136 billion (USD378m) without notice at the CBN.

CBN intervention in the banking sector and unconventional policy measures (including the LDR) is credit negative for banks. The LDR forces banks to increase lending in a very short timeframe to untested segments (retail and SMEs) when operating conditions are not conducive to growth. This could increase asset quality risks and pressure capitalisation. It will also lead to margin compression due to increasing competition for quality borrowers. Bank liquidity will also be affected because of lower holdings of government securities, which in turn, will affect regulatory capital ratios (because of declining amounts of lower risk-weighted assets). Liquidity, as well as earnings, will be affected if banks are required to place additional CRR for not meeting the LDR.

Updated Strategy

Zenith targets 10% loan growth for 2019 (2018: -10.5%). This reflects the new LDR requirement as well as the bank's strategy to expand quickly in retail banking in order to diversify the franchise and gain market share in a segment which is underbanked. Zenith's strategy is not different from other large banks, which also plan faster growth in retail through digital banking strategies. While Nigeria's retail segment offers significant opportunities for growth, it is also higher risk. As a prime corporate-focussed bank, Zenith's updated strategy clearly shows a higher risk appetite, but management believes it can grow in the retail and SME segments without compromising the bank's strong underwriting standards.

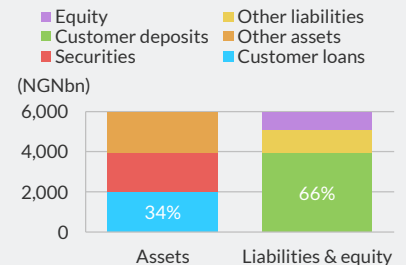
Tough Operating Environment

Operating conditions in Nigeria remain challenging. Fitch forecasts 2% GDP growth for 2019 (1.9% in 2018), largely driven by the non-oil sector and stable oil output. Nigeria is highly reliant on oil and gas (as Africa's largest producer), with the sector accounting for around 10% of GDP and 45% of government revenue. Below-average oil prices and OPEC imposed production cuts also weigh on the sector. Inflation remains high, albeit stable at around 11% in 2019; pressure could come from food price hikes, the new minimum wage and VAT increases.

Monetary policy aims to strike a balance between supporting the naira and controlling import inflation. The CBN has recently attempted to boost economic activity, starting with a policy rate cut to 13.5% in March (from 14%) and then directly intervening in the banking sector through regulations and policies to encourage banks to resume lending. Apart from the LDR requirement, the CBN has set limits on the amount of remunerable deposits banks can place at the CBN. The CBN is also bringing in rules to limit the amount of government securities banks can hold due to the crowding out of private sector credit.

Nigeria's improving international reserves (USD44.9 billion at end-1H19) provide a large external buffer. However, around USD6 billion of reserves are pledged in forward positions. Reserves are also buoyed by non-resident holdings of short-term CBN bills, which totalled USD15.8 billion (4% of GDP) at end-April2019, exacerbating susceptibility to reversals in volatile portfolio inflows and generating rollover risks.

Balance Sheet, September-2019



Source: Fitch Ratings, Zenith Bank Plc

Company Summary and Key Qualitative Assessment Factors

Strong Franchise

Established in 1990, Zenith is one of Nigeria's leading commercial banks, with an overall market share of about 16% and a network of 379 branches. Zenith has a strong franchise in prime Nigerian and regional corporates. The corporate business generates 60% of total revenue and represents around the same amount of the loan book. The bulk of the bank's business is in Nigeria, which accounted for 86% of consolidated revenue in 1H19. Zenith's international operations comprise subsidiaries in the UK (including a Dubai-based branch), Ghana, Sierra Leone and the Gambia, as well as a representative office in China.

The bank's business model is weighted towards the corporate segment. Retail loans represent 2% of gross loans but Zenith, like all other Nigerian banks, seeks to grow aggressively in retail, mainly through digital channels. The bank's exposure to the oil sector is large (28% of gross loans at end-1H19) but in line with the sector average of around 30%. Unlike most peers, Zenith has large loan exposure to the government and public sector (20% of gross loans), which includes lending to state governments. Although this sector has been problematic for banks in the past, Zenith's government/public sector book is performing well.

Good Execution of Strategy

Zenith is a well-managed bank that has performed well through the cycle. A new CEO was appointed in 2019 from within the bank, showing the depth of the management team and its succession plans. Senior executive turnover is low and the corporate culture is conservative.

Zenith has consistently pursued a highly selective lending policy, with a clear strategic focus on prime quality corporates. The bank is gradually tilting towards retail banking by relying on digital and agency banking to gain market share. This is a credible strategy given the significant size of this market (which is largely underbanked) and a stronger retail franchise will complement Zenith's leadership in corporate banking. Zenith also plans to grow in SME finance by targeting companies linked to its prime corporate clients. On the liabilities side, the bank intends to further increase its share of stable and lower-cost retail deposits. At end-9M19, around 30% of its customer deposits were from the retail segment, up from 23% at end-2018; the bank targets 40% in the medium term.

Changing Risk Appetite

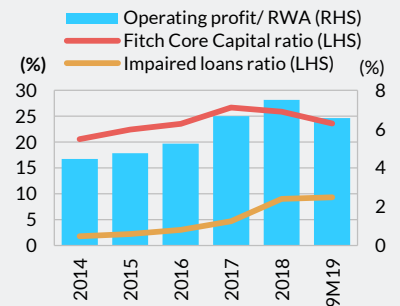
Zenith, like most peers, is showing a higher risk appetite as it returns to growth. The bank's underwriting standards are strong and risk controls are commensurate with its risk profile. Despite plans to expand aggressively in retail and SME banking, the focus remains on banking prime corporates. The loan book represents about half of assets, which is low by international standards but in line with the average for large Nigerian banks. Around 40% of loans are in foreign currency; this is on the high side compared to peers and is partly attributed to Zenith's large exposure to the oil and gas segment (28% of gross loans at end-9M19).

Zenith is highly exposed to the government through lending, securities and foreign currency swaps with the CBN. Zenith's profitability metrics have been consistently strong through the cycle, highlighting its franchise strengths.

Zenith's loan book has been declining for the past two years reflecting weak operating conditions, the lack of prime corporate business and a strong appetite for government securities. With its focus on expanding in retail banking and on meeting the minimum LDR, the bank targets 10% loan growth for 2019.

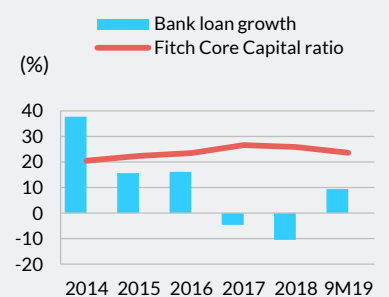
In our view, faster loan growth could pose future asset quality challenges. While this is a concern for the sector, we take some comfort that Zenith's underwriting standards and risk controls will remain robust and will counter challenges posed by rapid growth. Zenith targets an impaired loan ratio of 5% by 2020.

Through-The-Cycle



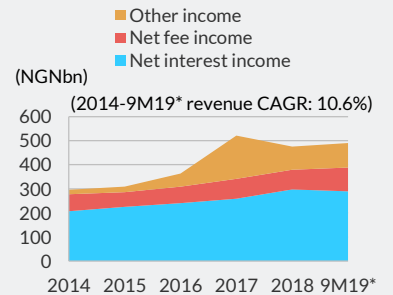
Source: Fitch Ratings, Zenith Bank Plc

Loan Growth



Source: Fitch Ratings, Zenith Bank Plc

Revenue Breakdown



(2014-9M19* revenue CAGR: 10.6%)
* annualised data
Source: Fitch Ratings, Zenith Bank Plc

Summary Financials and Key Ratios

	30 September 2019 9 Months - 3rd Quarter (NGNbn) Unaudited	31 December 2018 Year end (NGNbn) Audited - unqualified	31 December 2017 Year end (NGNbn) Audited - unqualified	31 December 2016 Year end (NGNbn) Audited - unqualified
Summary income statement				
Net interest & dividend income	216.6	297.4	258.9	240.5
Net fees and commissions	73.8	81.8	82.5	68.4
Other operating income	76.1	96.1	179.5	54.4
Total operating income	366.5	475.3	520.9	363.4
Operating costs	177.5	225.5	223.4	174.5
Pre-impairment operating profit	189.0	249.8	297.5	188.9
Loan & other impairment charges	13.0	18.4	98.2	32.4
Operating profit	176.0	231.4	199.3	156.5
Other non-operating items (net)	0.2	0.3	0.1	0.2
Tax	25.5	38.3	25.5	27.1
Net income	150.7	193.4	173.8	129.7
Other comprehensive income	-6.0	6.3	2.7	37.0
Fitch comprehensive income	144.7	199.7	176.5	166.6
Summary balance sheet				
Gross loans	2,204.9	2,016.5	2,252.2	2,360.8
- Ow impaired	205.5	181.8	105.9	71.4
Loan loss allowances	161.9	193.4	151.8	71.4
Net loans	2,043.0	1,823.1	2,100.4	2,289.4
Interbank	685.2	674.3	495.8	459.5
Derivatives	86.2	88.8	57.2	82.9
Other securities & earning assets	1,904.6	2,158.8	1,735.8	1,085.2
Total earning assets	4,719.0	4,745.0	4,389.2	3,916.9
Cash and due from banks	913.8	954.4	957.7	669.1
Other assets	345.6	256.3	248.4	153.9
Total assets	5,978.4	5,955.7	5,595.3	4,739.8
Liabilities				
Customer deposits	3,951.8	3,690.3	3,437.9	2,983.6
Interbank and other ST funding	420.2	221.9	69.3	104.6
Other LT funding	520.8	1,011.0	1,072.5	767.2
Trading liabilities and derivatives	10.6	17.0	20.8	66.8
Total funding	4,903.5	4,940.2	4,600.5	3,922.3
Other liabilities	203.1	199.8	182.6	113.0
Pref. shares and Hybrid Capital	n.a.	n.a.	n.a.	n.a.
Total equity	871.9	815.8	812.1	704.5
Total liabilities and equity	5,978.4	5,955.7	5,595.3	4,739.8
Ratios (annualised as appropriate)				
Profitability				
Operating profit/RWA	6.6	7.5	6.7	5.3

Summary Financials and Key Ratios

	30 September 2019	31 December 2018	31 December 2017	31 December 2016
NII/average earning assets	6.1	6.7	6.3	6.8
Non-interest expense/gross revenues	48.4	47.4	42.9	48.0
Net Income/average equity	24.5	25.1	23.5	20.0
Asset quality				
Impaired loans ratio	9.3	9.0	4.7	3.0
Growth in gross loans	9.3	-10.5	-4.6	16.2
Loan loss allowances/impaird loans	78.8	106.4	143.4	100.1
Loan impairment charges/average gross loans	1.0	0.6	4.2	1.4
Capitalisation				
Fitch Core Capital ratio	23.6	25.8	26.7	23.5
TCE ratio	14.2	13.4	14.3	14.8
CET 1 ratio	n.a.	n.a.	n.a.	0.0
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/FCC	5.2	-1.5	-5.8	0.0
Funding & liquidity				
Loans/customer deposits	55.8	54.6	65.5	79.1
LCR	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	80.8	75.0	75.1	77.4
NSFR	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings

Key Financial Metrics – Latest Developments

Recent Asset Quality Deterioration Highlights Credit Concentrations

Asset quality metrics remain acceptable compared to peers'. Zenith's impaired (IFRS 9/Stage 3) loans ratio increased to 9% at end-2018 following the reclassification of a single large telecoms-related exposure from 'watch-list' (with 30% reserve coverage) to Stage 3 with the implementation of IFRS 9. The ratio remained broadly stable at end-9M19, helped by write-offs of fully reserved Stage 3 loans in 9M19 equivalent to 9% of end-2018 gross loans. There have been large migrations across the various Stages to date in 2019, reflecting restructuring and still weak credit conditions. Zenith targets an impaired loan ratio of 5% and loan loss allowance coverage of 100% by 2020.

Additionally, Stage 2 loans formed a high 19% of gross loans at end-9M19 (but below peers), with the 10 largest Stage 2 loans being primarily in oil and gas lending. Zenith's loan book remains highly concentrated to the oil and gas sector (28% of gross loans at end-1H19), followed by manufacturing (a broad sector at 26%) and government (16%). The latter is one of the highest concentrations in Nigerian banks. A large proportion of this is to state governments, where history shows that such exposures can be problematic. However, these transactions are structured to minimise credit risk.

Zenith has large single obligor concentrations, with the largest 20 exposures representing 48% of gross loans and 119% of Fitch core capital at end-1H19. The overall quality of the book is satisfactory and mainly reflects Zenith's prime corporate franchise. That said, several of these exposures are classified as Stage 2.

Consistently Strong Profitability

Solid earnings generation and profitability (operating profit/risk-weighted assets of 6.6% in 9M19) reflect good net interest margins (NIM), high non-interest revenue (NIR) and good cost control. Loan impairment charges have increased moderately due to recent asset quality weaknesses but remain very low as a proportion of pre-impairment operating profit.

Zenith's NIM saw some compression in 1H19 due to a fall in lending rates, partly attributable to increased competition in corporate banking; this affected Zenith more than peers due to its small retail lending book. NIMs were also affected by falling yields on government securities.

Zenith's cost of funding remains low thanks to its solid deposit base, a strategic shift towards lower-cost deposits, and the maturing of the bank's USD500 million Eurobond earlier in 2019. The early redemption of its USD500m Eurobond due in 2022 will also help its funding costs.

NIR grew strongly in 9M19 due to higher fees and commissions and trading income. The former came from strong growth in fees from digital banking. Cost efficiency is better than peers, although Zenith (like its peers) faces higher regulatory costs.

Healthy Capital and Leverage Metrics

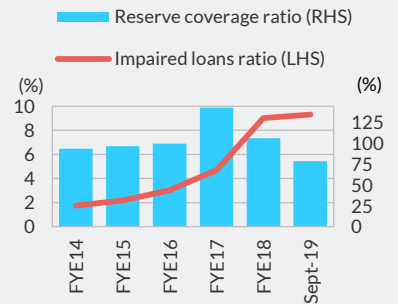
Zenith's capital adequacy ratios are among the strongest in Nigeria. The bank's Basel II regulatory total capital adequacy ratio of 23.8% at end-9M19 is well above its minimum of 15% (excluding the D-SIB buffer) and is likely to remain solid despite the 10% loan growth projected for 2019. Ratios are underpinned by consistently strong profits and low risk-weighted asset density. Risk to capital mainly arises from Zenith's large foreign currency loans and credit concentrations.

Solid Funding Profile

Zenith enjoys a solid customer deposit base. Deposits grew by 7% in 1H19, mainly in foreign currency domiciliary deposits. These deposits formed 30% of total customer deposits at end-9M19 and are less stable, in our view, because they are confidence sensitive. Around 30% of customer deposits are from retail and this percentage is likely to rise with the roll out of the retail strategy. Deposit concentrations are low.

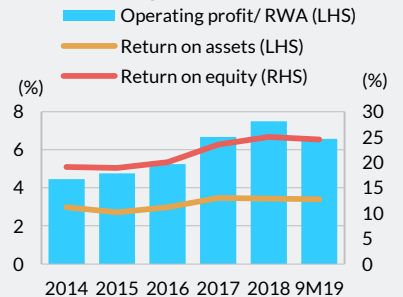
Other funding is fairly diverse. Zenith's medium-term funding plans include tapping development bank funding and bilateral facilities with international banks. Zenith has strong liquidity buffers comprising cash, reserves, treasury bills, interbank facilities and other liquid assets, reporting a regulatory liquidity ratio of 63.8% at end-9M19 versus a minimum of 30%.

Asset Quality



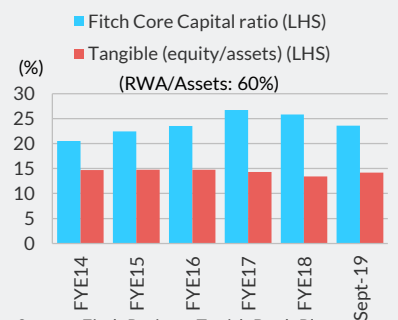
Source: Fitch Ratings, Zenith Bank Plc

Profitability



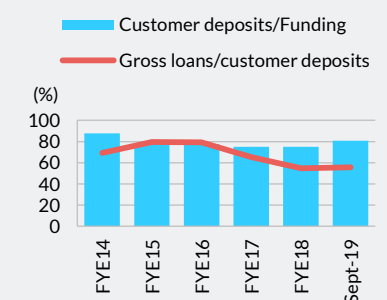
Source: Fitch Ratings, Zenith Bank Plc

Capitalisation & Leverage



Source: Fitch Ratings, Zenith Bank Plc

Funding Profile



Source: Fitch Ratings, Zenith Bank Plc

Environmental, Social and Governance Considerations

FitchRatings Zenith Bank Plc

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

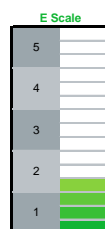
Zenith Bank Plc has 5 ESG potential rating drivers

- 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	
	4	issues	2	
not a rating driver	5	issues	1	

Environmental (E)

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



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 left-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.

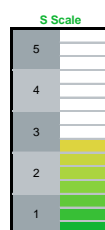
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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

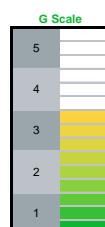
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
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
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

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



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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