FitchRatings

Banks
Universal Commercial Banks
Nigeria

# Sterling Bank Plc

## Key Rating Drivers

**Standalone Creditworthiness Drives IDRs:** Sterling Bank Plc's Issuer Default Ratings (IDRs) are driven by its standalone creditworthiness, as expressed by its Viability Rating (VR). The VR is highly conditioned by Nigeria's challenging operating environment reflecting weak macroeconomic conditions, policy uncertainty and increasing regulatory risks.

Sterling's VR also considers the bank's modest franchise (which, in our view, affects its revenue generation capability and funding profile), as well as weak and vulnerable capital buffers (that are well below domestic peers') and weaker loan-quality metrics. The VR also takes into account competent management and coherent strategy.

**Small Franchise:** Sterling's size (4% market share) and niche franchise act as a constraint on the bank's financial metrics, particularly earnings, funding and liquidity. This is partly due to Sterling being a relatively young bank, formed out of the merger of five Nigerian banks in 2006. Nevertheless, the bank is a well-managed institution, following a coherent and stable growth strategy, including the roll-out of digital retail banking.

**Weaker Asset Quality:** Sterling's impaired loans (Stage 3 IFRS 9) ratio rose sharply to 8.7% at end-2018 (2017: 5.8%) due to deterioration in the corporate book and despite significant write-offs. The ratio was stable in 1H19 and is at the sector average for Fitch-rated banks. The rise in impaired loans has not been accompanied by additional loan-loss reserves, and Sterling's loan-loss allowance coverage of Stage 3 loans fell to a very low 36% at end-1H19. Stage 2 loans are not excessive, at 7.5% of gross loans at end-1H19.

**Weak Capitalisation:** Sterling's capitalisation metrics are the weakest among Fitch-rated peers, with a Fitch Core Capital (FCC) ratio of only 13.7% at end-1H19. In addition, capital is highly vulnerable to asset-quality risks, with unreserved impaired loans measuring at 35% of FCC. We expect Sterling's total capital adequacy ratio (14% at end-9M19) to remain above the regulatory minimum of 10%, given modest growth plans and the absence of dividend payments.

**Volatile but Improving Funding Profile:** Sterling's funding profile is weaker than peers' given greater reliance on more-expensive and less-stable term deposits. Positively, the bank's strategy of attracting low-cost current and savings accounts (CASA) deposits is gaining momentum, as these accounted for 63% of total customer deposits at end-1H19 (2017: 46%).

**Adequate Liquidity Buffers:** We view Sterling's liquidity buffers as adequate. Liquid assets covered customer deposits by a comfortable 38% at end-1H19. Foreign-currency (FC) liquidity buffers are adequate given the limited amount of FC obligations maturing in 2020 and the performance of the FC loan book. The bank's FC loans/deposits ratio fell to 86% at end-1H19 from 94.7% at end-2018, reducing FC liquidity risk.

**National Ratings:** Sterling's National Ratings reflect its creditworthiness relative to other Nigerian rated-banks. They are at the lower-end of the scale reflecting Sterling's weaker financial metrics relative to peers'.

## Rating Sensitivities

**Downside Potential:** A downgrade of the IDRs may result from a significant erosion of the bank's capital ratios due to the materialisation of asset-quality risks.

**Upside Potential:** Positive rating action is unlikely in the short term given challenging operating conditions and Sterling's modest franchise. An upgrade would require a material expansion of the franchise reflected in a structural improvement in financial metrics.

### Ratings

| | |
|---|---|
| Long-Term IDR | B- |
| Short-Term IDR | B |
| Viability Rating | b- |
| Support Rating | 5 |
| Support Rating Floor | No Floor |
| **National** | |
| National Long-Term Rating | BBB-(nga) |
| National Short-Term Rating | F3(nga) |
| **Sovereign Risk** | |
| Long-Term Foreign-Currency IDR | B+ |
| Long-Term Local-Currency IDR | B+ |
| Country Ceiling | B+ |
| **Outlooks** | |
| Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Foreign-Currency IDR | Stable |

### Applicable Criteria

Bank Rating Criteria (October 2018)
National Scale Ratings Criteria (July 2018)
Short-Term Ratings Criteria (May 2019)

### Related Research

Fitch Affirms Sterling at 'B-'; Outlook Stable (November 2019)
Nigerian Banks: 2019 Peer Review (July 2019)
Nigeria (June 2019)
Loan-to-Deposit Requirement Credit-Negative for Nigerian Banks (July 2019)

### Analysts

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## Ratings Navigator – Standalone Assessment

### Sterling Bank Plc

ESG Relevance:

**Banks**
Ratings Navigator


| 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 | | ✓ | |
| Policy banks | | | |
| Policy role | | | |
| Funding guarantees and legal status | | | |
| Government ownership | | | |

### 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; But 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 FC. The size of 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-Deposits Ratio of 65%

Loan growth for the sector remained weak in 2018 (only 1% for the Fitch-rated banks) due to a combination of 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 Central Bank of Nigeria (CBN) has introduced a minimum loans/deposits ratio (LDR), set initially at 60% for end-3Q19, and subsequently increased to 65% to be met by end-2019. The LDR is effectively a loans/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 the bank meets the LDR requirement.

Sterling's LDR at end-3Q19 was 68.4% and the bank was not part of the 12 banks failing to meet the threshold at end-September 2019.

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 rising 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.

## Revised Strategy

Sterling targets 5% loan growth for 2019 (3.7% in 2018), partly in response to the LDR. The bank has identified five priority sectors for expansion: health, education, agriculture, renewable energy and transportation. Its medium-term strategy is to increase the share of these sectors to 20% of total loans (14.8% at end-3Q19). Sterling is also making an effort to diversify its earnings, mainly by increasing capital-efficient transactional banking activities. This largely relies on utilising new technology, such as digital banking.

## Tough Operating Environment

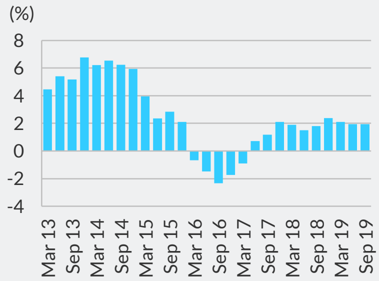
Operating conditions in Nigeria remain challenging. Fitch forecasts 2% GDP growth for 2019 (1.9% in 2018), largely driven by the non-oil sector and stable oil output. Nigeria is highly reliant on oil and gas (as Africa's largest producer), with the sector contributing to about 10% of GDP and 45% of government revenue. Lower average oil prices and OPEC-imposed production cuts also weigh on the sector. Inflation remains high, albeit stable at about 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 providing economic stimulus. 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 expected to bring 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, about 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-April 2019, exacerbating susceptibility to rollover risks and sudden outflows.

### GDP Growth Failing to Pick Up

(y-o-y)




Source: Fitch Ratings, Bloomberg

# Company Summary and Key Qualitative Assessment Factors

## Small Franchise

Sterling is the 10th-largest bank in Nigeria, with a 4% market share of loans. It is a relatively young bank, formed in 2006 out of a merger of five Nigerian banks, following higher minimum capital requirements brought in by the CBN. Though rapidly evolving, Sterling's franchise is modest and relatively niche-focused. This adversely affects its revenue generation, profitability and funding profile.

Sterling's Islamic banking services present growth opportunities and competitive advantages. Sterling is one of only two banks in Nigeria to offer sharia-compliant banking (termed as 'non-interest banking'), with NGN35 billion or 5.7% of end-2018 gross loans offered through this window. Sterling's share of Islamic loans is only second to a fully sharia-compliant bank, Jaiz Bank Plc (NGN40 billion). Sharia-compliant banking, though currently small, offers significant growth potential in Nigeria, with half of the country's population identified as Muslims.

Retail is an important area of growth but the bank's loan book remains dominated by corporate and commercial segments, which were 97% of total loans at end-2018. However, the corporate and commercial banking division had a negative contribution to pre-tax profit in 2018 due to high loan impairment charges (LICs).

## Constrained Execution

Sterling's performance has proved resilient through-the-cycle. Profitability metrics have been in line with similar-sized peers' and the bank did not experience meaningful deterioration in its loan-quality metrics when oil prices fell in 2015. Execution of strategy is nonetheless constrained by Nigeria's challenging operating environment. The bank aims to reduce its cost of funding by leveraging its digital platforms.

## Higher-Risk Business Model

Sterling is mainly exposed to smaller corporate and commercial customers because its small franchise and balance sheet constrain its ability to diversify lending. As a result, credit concentrations by single-obligor and industry sector are high compared with domestic peers'. The 20 largest loans comprised 52% of gross loans at end-1H19 (3.3x the bank's FCC), while the oil sector made up 47% of the loan book, exposing the bank to significant event risk.

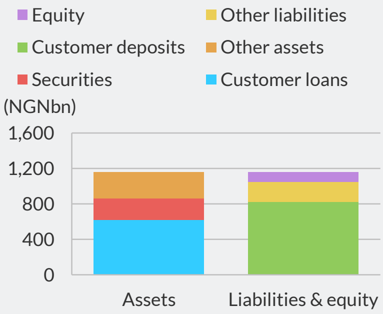
## Prudent Growth Strategy

Positively, the bank concentrates its efforts in reducing its exposure to the FC-denominated oil and gas sector, which represents a high share of problem loans defined as the sum of Stage 2 and Stage 3 loans (16.1% at end-1H19). The strengthening of Sterling's risk-management framework, which started in 2018, is credit-positive. This predominantly entailed the overhaul of credit policies, as well as increased staff training and enhanced underwriting standards. Lending decisions are guided by minimum return on risk-adjusted capital. Management expects prudent loan growth of 5% over the next 12-18 months.

## Reducing Vulnerability to Market Risk

Sterling's long US dollar position reduced significantly to 2.5% of equity at end-1H19 from 55% at end-2017 due to the maturity of various FC swaps. This stands well below the regulatory requirement of 10%. Interest-rate risk in the banking book is present, with the bank exposed to falling interest rates. According to the bank, a 200bp fall in interest rates would reduce equity by 7.2%, which we consider to be moderate.

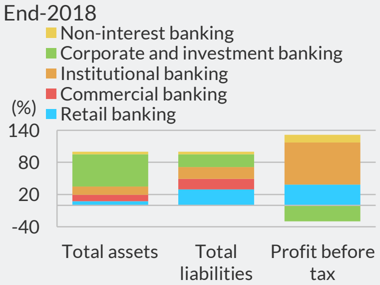
### Balance Sheet, Jun 19




Source: Fitch Ratings, Sterling Bank Plc

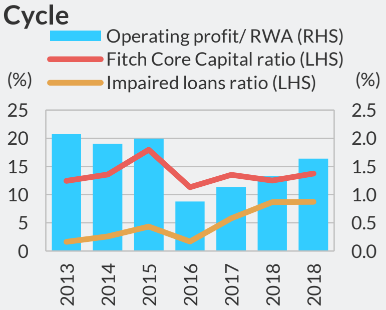
### Balance Sheet and Earnings by Segment

End-2018



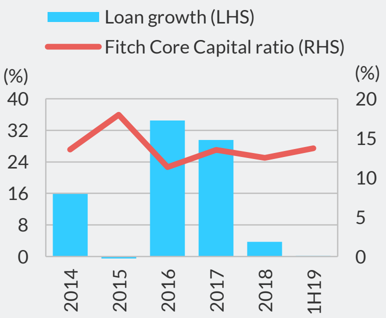

Source: Fitch Ratings, Sterling Bank Plc

### Performance Through-The-Cycle




Source: Fitch Ratings, Sterling Bank Plc

### Loan Growth




Source: Fitch Ratings, Sterling Bank Plc

## Summary Financials and Key Ratios

| | 30 Jun 19 6 Months - interim (NGNbn) Unaudited | 31 Dec 18 Year end (NGNbn) Audited - unqualified | 31 Dec 17 Year end (NGNbn) Audited - unqualified | 31 Dec 16 Year end (NGNbn) Audited - unqualified |
|---|---|---|---|---|
| **Summary income statement** | | | | |
| Net interest & dividend income | 30.2 | 55.7 | 50.3 | 56.1 |
| Net fees and commissions | 9.8 | 15.2 | 12.9 | 10.8 |
| Other operating income | 1.8 | 9.2 | 5.4 | 1.4 |
| Total operating income | 42.0 | 79.9 | 68.6 | 68.3 |
| Operating costs | 34.3 | 66.0 | 53.4 | 50.6 |
| Pre-impairment operating profit | 7.7 | 13.9 | 15.1 | 17.6 |
| Loan & other impairment charges | 1.7 | 4.5 | 7.2 | 11.7 |
| Operating profit | 6.0 | 9.4 | 8.0 | 5.9 |
| Other non-operating items (net) | 0.0 | 0.0 | 0.1 | 0.1 |
| Tax | 0.3 | 0.3 | 0.1 | 0.8 |
| Net income | 5.7 | 9.2 | 8.0 | 5.2 |
| Other comprehensive income | 6.7 | -3.3 | 8.8 | -12.5 |
| Fitch comprehensive income | 12.0 | 6.2 | 16.7 | -7.3 |
| | | | | |
| **Summary balance sheet** | | | | |
| | | | | |
| Gross loans | 641.8 | 640.7 | 617.6 | 476.7 |
| - Ow impaired | 55,9 | 55.6 | 35.8 | 8.1 |
| Loan loss allowances | 20.1 | 19.7 | 19.5 | 8.5 |
| Net loans | 621.7 | 621.0 | 598.1 | 468.3 |
| Interbank | 71.0 | 43.4 | 51.1 | 31.3 |
| Derivatives | n.a. | n.a. | 0.0 | 0.0 |
| Other securities & earning assets | 238.3 | 260.1 | 256 | 178.6 |
| Total earning assets | 931.2 | 924.8 | 905.3 | 681 |
| Cash and due from banks | 141.1 | 117.7 | 122.6 | 107.9 |
| Other assets | 84.1 | 60.4 | 44.3 | 45.3 |
| Total assets | 1,156.3 | 1,102.9 | 1,072.2 | 834.2 |
| | | | | |
| **Liabilities** | | | | |
| Customer deposits | 818.6 | 760.6 | 684.8 | 584.7 |
| Interbank and other short-term funding | 59.0 | 68.4 | 198.8 | 65.8 |
| Other long-term funding | 130 | 137.7 | 38.1 | 55.9 |
| Trading liabilities and derivatives | n.a. | 0.0 | 0.0 | 0.0 |
| Total funding | 1,007.7 | 966.7 | 921.8 | 706.3 |
| Other liabilities | 38.5 | 38.4 | 48.8 | 42.2 |
| Pref. shares and hybrid capital | n.a. | n.a. | n.a. | n.a. |
| Total equity | 110.2 | 98.0 | 102.9 | 85.7 |
| Total liabilities and equity | 1,156.3 | 1,102.9 | 1,072.2 | 834.2 |
| | | | | |
| **Ratios (annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/RWAs | 1.6 | 1.3 | 1.1 | 0.9 |

## Summary Financials and Key Ratios (Cont.)

| | 30 Jun 19<br>6 Months - interim<br>(NGNbn)<br>Unaudited | 31 Dec 18<br>Year end<br>(NGNbn)<br>Audited - unqualified | 31 Dec 17<br>Year end<br>(NGNbn)<br>Audited - unqualified | 31 Dec 16<br>Year end<br>(NGNbn)<br>Audited - unqualified |
|---|---|---|---|---|
| NII/average earning assets | 6.7 | 6.2 | 6.4 | 8.5 |
| Non-interest expense/gross revenues | 81.7 | 82.6 | 76.7 | 74.7 |
| Net income/average equity | 10.8 | 9.12 | 8.6 | 5.7 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 8.7 | 8.7 | 5.8 | 1.7 |
| Growth in gross loans | 0.2 | 3.7 | 29.6 | 34.5 |
| Loan loss allowances/impaired loans | 36.0 | 35.4 | 54.5 | 104.2 |
| Loan impairment charges/average gross loans | 0.5 | 0.7 | 1.4 | 2.7 |
| | | | | |
| **Capitalisation** | | | | |
| Fitch Core Capital ratio | 13.7 | 12.5 | 13.5 | 11.3 |
| TCE ratio | 8.8 | 8.1 | 9.0 | 9.3 |
| CET 1 ratio | n.a. | n.a. | n.a. | n.a. |
| Basel leverage ratio | n.a. | n.a. | n.a. | n.a. |
| Net impaired loans/FCC | 35.4 | 40.4 | 17.0 | -0.4 |
| | | | | |
| **Funding & liquidity** | | | | |
| Loans/customer deposits | 78.4 | 84.2 | 90.2 | 81.5 |
| LCR | n.a. | n.a. | n.a. | n.a. |
| Customer deposits/funding | 81.2 | 78.7 | 74.3 | 82.8 |
| NSFR | n.a. | n.a. | n.a. | n.a. |

Source: Fitch Ratings, Fitch Solutions, Sterling

## Key Financial Metrics – Latest Developments

### Weak Asset Quality

Sterling's loan-quality metrics have deteriorated significantly, with its impaired loans ratio rising to 8.7% of gross loans at end-1H19 from 5.8% at end-2017. This was due to migrations of loans from Stage 2 to Stage 3 exceeding loan write-offs (2% of gross loans in 2018). Asset quality is no longer a strength for the bank and Sterling's impaired loans ratio is now comparable to the sector average (8.6% at end 1H19).

Stage 2 loans made up 7.5% of gross loans at end-1H19, which compares favourably with second-tier peers'. Stage 2 loans are restructured exposures in the upstream oil and gas sector as well as the power sector. A resolution of the Stage 2 book within the next 18 months will be largely dependent on the performance of the oil sector. We expect some improvement in Sterling's impaired loans ratio in 2020 on the back of write-offs, restructuring and recoveries. Loan-loss coverage of impaired loans deteriorated to a very low 36% at end-1H19 from 54.5% at end-2017 and is significantly weaker than peers. We believe the bank does not set aside more prudent provisions because of collateral held.

### Weak but Gradually Improving Profitability

Profitability is hampered by weak revenue generation and a high cost base, with operating profits measuring at a low 1.6% of risk-weighted assets in 1H19 (2018: 1.3%). The bank's cost-to-income ratio is well above domestic peers' (81.7% in 1H19), reflecting, in our view, the bank's continuing investments in digital banking and weak earnings generation hampered by Sterling's small domestic franchise. The bank has previously struggled with high LICs, which have on average consumed 42% of the bank's pre-impairment operating profits since 2016, but this metric is now improving (1H19: 22%), which is supporting the bank's operating profitability. However, profitability remains highly vulnerable to movements in LICs owing to the bank's low reserve coverage of Stage 3 loans.

Net interest margins have also improved due to reducing cost of funding as the bank has had more success in attracting low-cost CASA deposits, which we expect to continue in 2020. Net fees and commissions increased to 23% of total operating income in 1H19, compared with 19% in 2017. These are increasingly supported by the bank's digital banking channels, which provide good earnings diversification. We expect Sterling's profitability metrics to improve slightly in 2020 absent any significant credit event, driven mainly by reducing cost of funding.

### Low and Vulnerable Capital Buffers

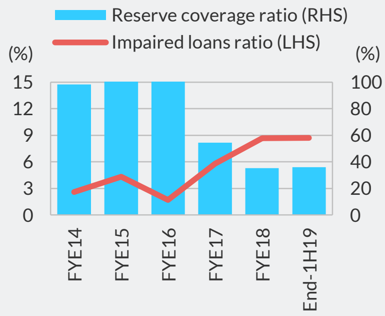
Sterling's FCC ratio dropped by 100bp in 2018 with the application of IFRS 9 but rebounded in 1H19 due to higher retained earnings. Nonetheless, the bank's FCC ratio of 13.7% at end-1H19 was the lowest of Fitch-rated Nigerian banks. In addition, unreserved impaired loans were 35% of FCC at end-1H19. The bank's capital adequacy ratio was 12.7% at end-1H19 (14% at end-3Q19), above the minimum regulatory requirement of 10% for Sterling. Regulatory capital is supported by NGN20.5 billion seven-year subordinated debt issued in 2018, which qualifies as Tier 2 capital. We expect the bank to maintain comfortable capital buffers over regulatory requirements, given the absence of dividend payments and the bank's prudent growth strategy.

### Volatile but Improving Funding Profile

The bank is mainly funded by customer deposits, which made up 79% of non-equity funding at end-1H19. Customer deposits grew by an average of 12% annually between end-2017 and end-1H19 with most of this growth driven by low-cost CASA deposits. Accordingly, the share of CASA deposits in the bank's customer deposit base rose to 63% at end-1H19 from 46% at end-2017, driving the decline in Sterling's cost of funding. However, reliance on confidence-sensitive corporate deposits remains high at 65% of customer deposits at end-1H19, highlighting the bank's still small franchise.

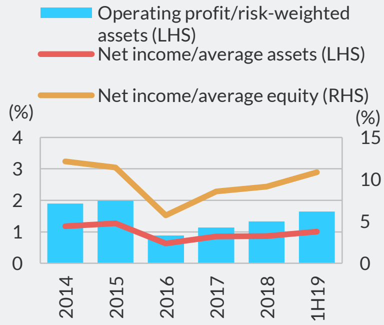
Sterling's regulatory liquidity ratio was 38.7% at end-1H19, well above the 30% minimum requirement. The bank's FC liquid assets (comprising cash and equivalents, investment securities and interbank placements) covered 33% of FC customer deposits at end-1H19, which is prudent in our view.

### Asset Quality



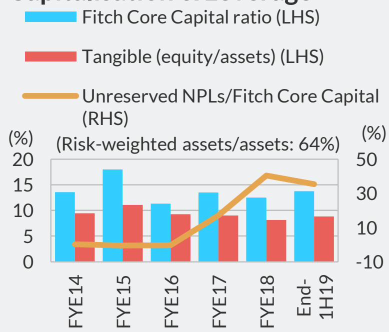

Source: Fitch Ratings, Sterling Bank Plc

### Profitability



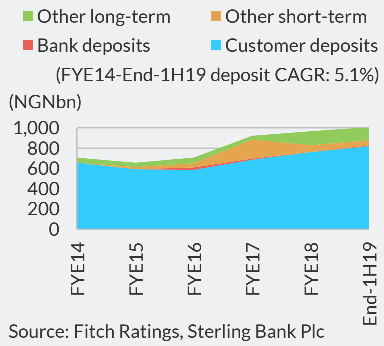

Source: Fitch Ratings, Sterling Bank Plc

### Capitalisation & Leverage




Source: Fitch Ratings, Sterling Bank Plc

### Funding Breakdown




Source: Fitch Ratings, Sterling Bank Plc

# Environmental, Social and Governance Considerations

FitchRatings **Sterling Bank Plc**

**Banks**
**Ratings Navigator**

### Credit-Relevant ESG Derivation

Sterling Bank Plc has 5 ESG potential rating drivers

- Sterling 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 |
| | 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 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.

**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.