FitchRatings

Banks
Universal Commercial Banks
Spain

Banco de Sabadell, S.A.

Key Rating Drivers

Adequate Capitalisation: The ratings of Banco de Sabadell, S.A. are driven by its adequate capitalisation, solid domestic franchise, particularly in the SME segment, and its fairly diversified business model, which together provide adequate financial flexibility to absorb asset quality and profitability pressures from a still challenging operating environment.

Satisfactory Capital Buffers: Sabadell's capital ratios at end-June 2021 were satisfactorily above minimum requirements, benefiting from recent asset disposals. Fitch Ratings' assessment of capitalisation takes into consideration the bank's target to maintain a fully loaded common equity Tier 1 (CET 1) ratio above 12% throughout the strategic plan, as well as an expected dividend pay-out ratio of 30% for 2021 results.

Risk Diversification from TSB: Sabadell's company profile also reflects some risk diversification from the UK business (through TSB Banking Group plc, TSB), which accounts for about 20% of group assets, and whose performance is improving but remains weak. The strategic plan considers TSB an integral part of the group, and Sabadell expects to leverage on the UK business to achieve its group profitability targets (with a return on tangible equity of above 6% in 2023).

Expected Rise in Impaired Loans: Sabadell's asset quality is weaker than that of some European peers but better than domestic peers' (the bank's problem asset ratio, which includes impaired loans and net foreclosed assets, was 4% at end-June 2021). Asset quality risks from the pandemic are mainly related to the bank's significant exposure to SMEs. However, improved economic prospects, together with state-support measures, will likely result in more limited asset quality deterioration than initially expected.

Still Weak but Recovering Earnings: The group's profitability improved in 1H21 from weak levels in 2020 amid the economic recovery in Spain and the UK. We expect earnings to approach pre-pandemic levels towards 2023, but there remain downside risks due to asset quality pressures and the risk that TSB could miss its profitability targets.

New Strategic Plan: Sabadell presented its new 2021-2023 strategic plan following the appointment of a new management team in 1H21. While the still uncertain operating environment could challenge the execution of the strategic plan, the latter's focus on enhancing the bank's financial flexibility should help provide adequate absorption capacity for asset quality risks in the event of a subdued economic recovery.

Adequate Funding and Liquidity: Sabadell fully funds its loans with deposits and benefits from a reasonably diversified funding profile, with frequent access to secured and unsecured wholesale markets. Its liquidity position is sound and remains supported by large investments in high-quality liquid securities.

Rating Sensitivities

Asset Quality, Profitability: An upgrade would require a decrease in the problem asset ratio to materially below 4%, partly driven by an improvement in the operating environment in Spain, in particular. This should be accompanied by enhancements in profitability towards pre-pandemic levels (with an operating profit/risk-weighted assets (RWAs) ratio of around 1.8%). Equally important will be a strengthening of capitalisation.

Capitalisation: The ratings could be downgraded if Sabadell's CET1 ratio fell below the 12% minimum target without the prospect of recovery in the short term, capital encumbrance by unreserved problem assets rose above 50% on a sustained basis, or if the four-year average problem asset ratio increased above 5% without a clear path to reduction.

Ratings

Long-Term IDR	BBB-
Short-Term IDR	F3
Derivative Counterparty Rating	BBB(dcr)
Viability Rating	bbb-
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDRs	A-
Country Ceiling	AAA

Outlooks

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

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Affirms Sabadell at 'BBB-'; Outlook Stable (September 2021)

Large Spanish Banks: Return to Growth (August 2021)

Western European Banks: Asset Quality Cliff-Edge Risk Avoided (June 2021)

Global Economic Outlook (September 2021)

Cost-Cutting Still a Priority for Spanish Banks (April 2021)

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Debt Rating Classes

Rating Level	Rating
Deposit Rating	BBB/F2
Senior preferred debt	BBB/F2
Senior non-preferred debt	BBB-
Tier 2 subordinated debt	BB

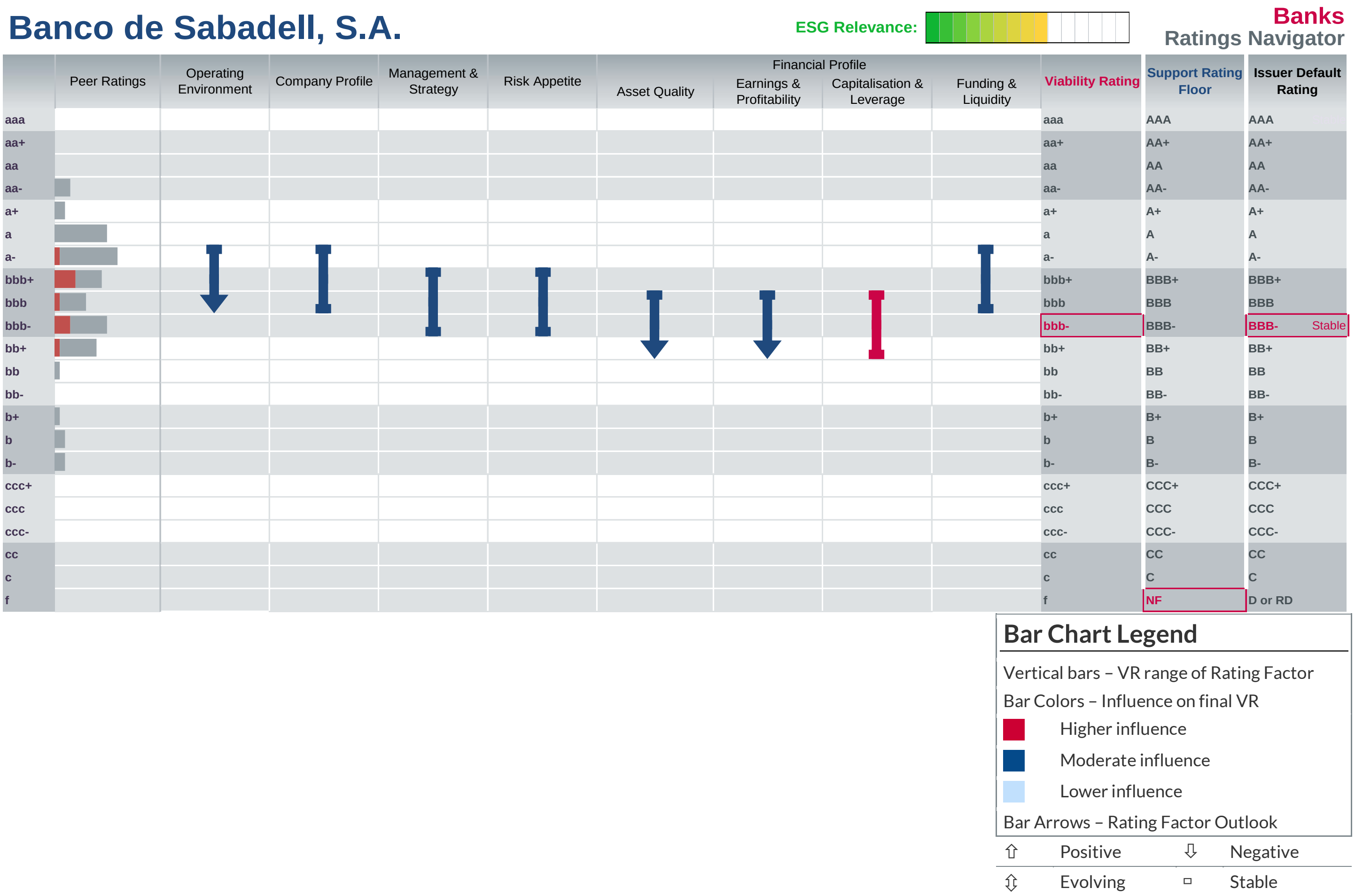
Source: Fitch Ratings

Sabadell's Derivative Counterparty Rating and long-term deposit and senior preferred debt ratings are rated one notch above the bank's Long-Term Issuer Default Rating (IDR) to reflect the protection offered by more junior resolution debt and equity buffers. In light of the bank's minimum requirement for own funds and eligible liabilities (MREL) strategy, Fitch expects the bank's junior and senior non-preferred debt buffers to sustainably exceed 10% of RWAs (these buffers were about 7% at end-June 2021). The short-term deposit rating 'F2' is the higher of the two options corresponding to the long-term deposit rating of 'BBB', in line with the bank's funding and liquidity score at 'bbb+'.

Senior non-preferred notes are rated at the same level as the bank's Long-Term IDR, reflecting Fitch's view that the default risk of the notes is equivalent to that of the IDR and that senior non-preferred obligations are viewed as having average recovery prospects.

Tier 2 subordinated debt is rated two notches below the bank's Viability Rating to reflect the notes' poor recovery prospects arising from subordination in the event the bank becomes non-viable.

Ratings Navigator



Significant Changes

Short-Term Risks to Spain's Operating Environment

We believe that risks to the Spanish economy from the pandemic have not yet subsided sufficiently to stabilise the outlook on the operating environment score of 'bbb+'. The main short-term risk to Fitch's projections is that the rise in coronavirus infections could result in renewed restrictions, although of a milder nature than before, but potentially affecting business activity, or weaker- than-expected performance in the summer tourism season. A further risk is the impact of the pandemic on the labour market once support measures are rolled back, in particular the furlough scheme.

Fitch has revised the outlook on the UK's operating environment score of 'aa-' to stable from negative following a similar Outlook change of the UK sovereign's 'AA-' Long-Term IDR in June 2021, together with improved economic recovery prospects.

New Strategic Plan for 2021-2023

In May 2021 Sabadell announced a new strategic plan for 2021-2023. In Spain, the plan focuses on consolidating Sabadell's already strong position in the Spanish SME segment by increasing business volumes and progressing on the specialisation of its branch network, while taking advantage of potential business opportunities derived from the channelling of Next Generation EU funds. In retail banking, Sabadell will focus on progressing with its digitalisation strategy, which is expected to allow additional cost savings in the medium term.

In the UK, the bank's strategy focuses on improving TSB's still weak profitability amid the UK's improved economic prospects. To this end, Sabadell targets growing mortgage lending above the market, which we view as challenging considering the high competition in this business segment and TSB's small franchise.

Sabadell targets a return on tangible equity of above 6% at group level by 2023 (3.9% annualised in 2Q21). The bank expects this to be achieved by growing net interest income and net fees and commissions by low and mid-single digit compounded annual growth rate (CAGR), respectively, between 2021 and 2023. In addition, the bank recently announced a new restructuring plan in Spain (with estimated cost savings of EUR100 million annually) which adds to a previous plan implemented in 1Q21 in Spain (EUR141 million annually) and a restructuring plan in the UK (EUR70 million annually). While profitability targets are not very ambitious in relation to the bank's structural capacity, the group expects profitability to improve towards pre-pandemic levels beyond the plan.

In terms of asset quality targets, Sabadell guides to stable impaired loans and reserve coverage by end-2023 in relation to those reported at end-June 2021, and expects loan impairment charges (LICs) to decrease to about 45bp of gross loans in 2023 (from 65bp in 1H21).

Brief Company Summary

Sound Domestic Franchise

Sabadell is the fourth-largest bank in Spain by total assets and had domestic market shares in customer loans and deposits of around 7% at end-June 2021. Sabadell benefits from a well-established domestic franchise in the SME segment that results in good pricing power. In 2015 Sabadell acquired TSB, a small mortgage-lender based in the UK, bringing some international diversification.

Sabadell's company profile benefits from the improved performance of TSB following the more positive macroeconomic developments in the UK. It also benefits from several restructuring measures implemented both in Spain and the UK that are enhancing cost efficiency and profitability prospects.

Management Changes

In March 2021, Sabadell's board of directors appointed César González-Bueno as the new CEO of the group, replacing Jaime Guardiola. Mr. González-Bueno was the CEO of ING Direct Spain between 1999 and 2011 and had been board member of TSB since the beginning of 2020. In addition, Leopoldo Alvear, Bankia's former CFO was appointed as CFO of the group.

Following the appointment of the new CEO, the chairman ceased to have executive functions as recommended by the ECB. The chairman will focus on strategic planning and management oversight.

Additional Restructuring Plan in Spain

Sabadell recently announced a new cost efficiency initiative in Spain. The latter involves further staff reduction (by over 10%) and branch closures (about 20%) and its impact on costs is expected to be visible from 2Q22. The plan is not expected to affect capital ratios as it is expected to be financed with capital gains from the sale of debt securities (unrealised gains in the hold-to-collect securities portfolio accounted for about EUR0.9 billion at end-June 2021). The bank's implementation of previous restructuring measures has been successful and we expect the ultimate impact on costs to be fully visible in 2023.

Adequate Underwriting Standards

Credit risk is the primary source of risk and stems from the loan book (63% of assets at end-June 2021) and from securities (11%, largely sovereigns). Underwriting standards are in line with those of similarly rated domestic peers and Sabadell's overall risk profile has improved in recent years as a result of the bank's focus on reducing problem assets, accelerated by a large sale of foreclosed assets and impaired loans in 2018.

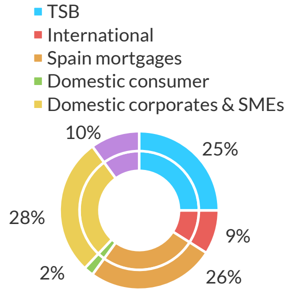
Sabadell's strong presence in the business segment (42% of domestic loans at end-2020, including SMEs and corporates) results in a slightly higher risk appetite than domestic peers. However, this has been historically accompanied by wider margins for Spanish SMEs and well-developed risk management tools. Furthermore, SME lending is diversified and partly secured, while lending to large corporates is mainly unsecured and focused on Spanish blue-chip companies.

In retail banking, close to 75% of mortgage loans in Spain had loan-to-value ratios (LTVs) below 80% at end-June 2021. This has gradually improved in recent years as new lending remains focused on LTVs below 80%. TSB's low risk profile is supportive of the group's risk appetite assessment. Average LTV for the mortgage lending portfolio in the UK was about 45% at end-June 2021.

Sabadell's exposure to market risk is average and mostly comes from structural interest-rate risk. The bank uses appropriate hedging techniques and controls to mitigate risks. Foreign exchange risk is largely derived from its equity investment in TSB financed in euros and from foreign earnings. The bank's policy is to hedge potential foreign-exchange effects on the consolidated fully-loaded CET1 from exchange-rate movements and a large proportion of expected profits to ensure earnings stability.

Lending Breakdown

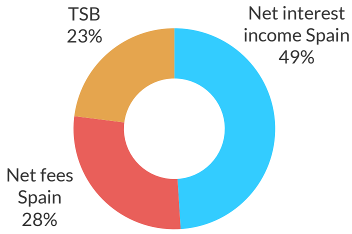
End-2020



Source: Fitch Ratings, Sabadell

Operating Income by Business Line

1H21



Source: Fitch Ratings, Sabadell

Summary Financials and Key Ratios

	30 Jun 21		31 Dec 20	31 Dec 19	31 Dec 18
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	2,004	1,686.4	3,400.1	3,626.9	3,683.3
Net fees and commissions	843	709.4	1,350.3	1,438.7	1,335.3
Other operating income	-47	-39.3	551.6	-133.9	-8.4
Total operating income	2,800	2,356.5	5,302.0	4,931.7	5,010.2
Operating costs	1,797	1,511.9	3,461.4	3,213.1	3,273.5
Pre-impairment operating profit	1,004	844.6	1,840.6	1,718.6	1,736.7
Loan and other impairment charges	599	503.9	1,745.0	667.1	756.1
Operating profit	405	340.7	95.6	1,051.5	980.6
Other non-operating items (net)	-51	-43.1	-216.4	-100.5	-561.7
Tax	84	70.3	-123.8	174.1	83.6
Net income	270	227.3	3.0	776.9	335.3
Other comprehensive income	0	0.4	-256.5	224.9	-183.3
Fitch comprehensive income	271	227.7	-253.5	1,001.8	152.0
Summary balance sheet					
Assets					
Gross loans	187,812	158,037.6	152,201.3	150,513.1	145,824.0
- Of which impaired	6,555	5,516.2	5,319.9	5,922.6	6,471.6
Loan loss allowances	3,776	3,177.4	3,081.3	2,933.3	3,433.1
Net loans	184,036	154,860.2	149,120.0	147,579.8	142,390.9
Interbank	1,895	1,594.7	1,789.5	2,583.2	2,929.6
Derivatives	2,890	2,431.9	3,373.0	2,558.3	2,079.2
Other securities and earning assets	35,266	29,675.1	31,945.8	41,215.8	34,216.1
Total earning assets	224,087	188,561.9	186,228.3	193,937.1	181,615.8
Cash and due from banks	55,748	46,910.0	35,184.9	15,169.2	23,494.5
Other assets	17,408	14,648.0	14,350.1	14,647.3	17,211.7
Total assets	297,242	250,119.9	235,763.3	223,753.6	222,322.0
Liabilities					
Customer deposits	187,516	157,788.3	151,256.7	146,411.1	134,583.0
Interbank and other short-term funding	16,070	13,522.1	10,470.6	13,516.7	17,808.9
Other long-term funding	64,794	54,521.8	50,770.5	40,390.3	48,934.4
Trading liabilities and derivatives	2,917	2,454.9	3,808.1	3,677.7	2,408.4
Total funding	271,296	228,287.1	216,305.9	203,995.8	203,734.7
Other liabilities	8,925	7,510.2	5,815.8	5,633.4	5,320.4
Preference shares and hybrid capital	1,961	1,650.0	1,150.0	1,150.0	1,150.0
Total equity	15,060	12,672.6	12,491.6	12,974.4	12,116.9
Total liabilities and equity	297,242	250,119.9	235,763.3	223,753.6	222,322.0
Exchange rate		USD1 = EUR0.841468	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, Sabadell

Summary Financials and Key Ratios

	30 Jun 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.9	0.1	1.3	1.2
Net interest income/average earning assets	1.8	1.8	2.0	2.1
Non-interest expense/gross revenue	65.7	65.7	65.9	66.1
Net income/average equity	3.6	0.0	6.1	2.7
Asset quality				
Impaired loans ratio	3.5	3.5	3.9	4.4
Problem asset ratio	4.0	4.1	4.4	5.1
Growth in gross loans	3.8	1.1	3.2	0.3
Loan loss allowances/impaired loans	57.6	57.9	49.5	53.1
Loan impairment charges/average gross loans	0.7	1.2	0.5	0.5
Capitalisation				
Common equity Tier 1 ratio	12.3	12.6	12.4	12.0
Fully loaded common equity Tier 1 ratio	12.0	12.0	11.7	11.1
Tangible common equity/tangible assets	3.9	4.0	4.5	4.3
Basel leverage ratio	5.4	5.2	5.0	4.9
Net impaired loans/common equity Tier 1	23.5	22.6	29.6	31.6
Funding and liquidity				
Loans/customer deposits	100.2	100.6	102.8	108.4
Liquidity coverage ratio	220.0	198.0	172.0	168.0
Customer deposits/funding	69.4	70.7	72.4	66.5
Net stable funding ratio	136.0	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Sabadell

Key Financial Metrics – Latest Developments

Risks from Lending to SMEs

Sabadell has materially reduced its large stock of problem assets in the past few years, closing the gap with domestic peers but remaining above the European average. Asset quality indicators have so far held up well despite the pandemic, but we expect impaired loans to increase in 2H21 and 2022 as government measures are lifted. Sabadell is more at risk of asset quality pressures in Spain than some of its domestic peers given its significant exposure to the SME segment. This segment is particularly sensitive to a weaker operating environment and to disruption in business activity. However, exposure to the most vulnerable sectors accounted for a moderate 9% of domestic performing loans at end-June 2021, and 16% of the bank's corporate and SME lending benefits from state guarantees, with the majority expiring after 2023.

At end-June 2021, the problem asset ratio (Stage 3 loans and net foreclosed assets) was stable at 4% and the loan loss allowance coverage of impaired loans was adequate at 58%. TSB's predominantly low-risk mortgage lending exposure results in a low impaired loan ratio (1.6% at end-June 2021).

In Spain Sabadell has granted EUR3.2 billion of loan moratoriums, equivalent to 8% of total domestic loans. At end-June 2021, 83% of loan moratoriums had expired, with 12% of the total becoming impaired. The latter was largely unlikely to pay and less than 90 days past due (about 85% of total), but was higher than the average for the sector. Moratoriums granted by TSB accounted for about 14% of total loans in the UK and had almost fully expired at end-June 2021, with about 5% being impaired.

Downside Earnings Pressure

Sabadell's operating profit/RWAs ratio increased to 0.9% (annualised) in 1H21, compared with 0.1% in 2020 (and on average 1.8% in 2016-2019, excluding one-off IT migration charges at TSB in 2018). TSB's contribution to earnings was positive in 1H21 after three years of losses due to one-offs, low efficiency and higher LICs in 2020. TSB's 1H21 results reflect the first positive impact of cost-cutting plans and improved commercial dynamics.

We assume that earnings will improve in the medium term and will approach normalised levels towards 2023. This will be supported by a decrease in LICs, but downside risks related to the pandemic remain in the short term.

Satisfactory Capitalisation

Sabadell's regulatory CET1 ratio was 12.3% (12% on a fully-loaded basis) at end-June 2021 against a minimum requirement of 8.52% for 2021. The ratio benefited from the positive impact from the sale of its depositary business of 7bp in June 2021, while the upcoming sale of Sabadell's subsidiary in Andorra (expected to be completed by year-end) will result in an additional positive impact of 7bp. We expect the bank's fully-loaded CET1 ratio to be maintained above the 12% target throughout the strategic plan period. The ratio should also benefit from an improving internal capital generation capacity and a conservative dividend pay-out policy (the bank plans to approve a 30% pay-out ratio for 2021 results).

Unreserved problem assets have significantly declined in recent years and represented 32% of CET1 capital at end-June 2021. We expect the ratio to increase again in the near term as asset quality deteriorates, but to remain within tolerable levels.

Relatively Diversified Funding Profile, Good Liquidity

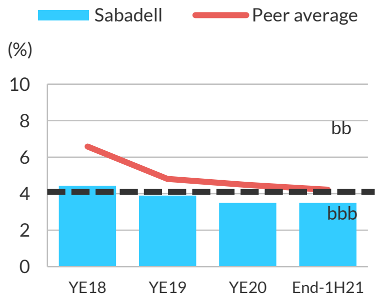
Sabadell funds its loan book with customer deposits and, to a lesser extent, long-term secured and unsecured debt (particularly to meet its MREL), resulting in an adequate funding structure for its retail business.

Wholesale debt maturities are manageable in light of the stock of liquid assets. At end-June 2021, Sabadell (excluding TSB) had EUR45 billion in high quality liquid assets (22% of assets), mainly in the form of government bonds. The group's regulatory liquidity coverage ratio of 220% was comfortably above minimum requirements, while TSB is self-funded and highly liquid. ECB funding from TLTROIII was EUR32 billion at end-June 2021 (13% of total assets), of which EUR5 billion was drawn in 1Q21.

Notes on Charts

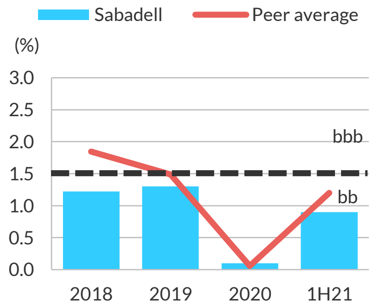
Black dashed lines represent indicative quantitative ranges for core financial metrics given an operating environment score of 'bbb'. The peer average includes Banco Sabadell S.A. (Viability Rating: bbb-), CaixaBank S.A. (bbb+), Kutxabank, S.A. (bbb+), Intesa Sanpaolo S.p.A. (bbb-), UniCredit S.p.A. (bbb-), AIB Group, plc (bbb) and Bank of Ireland Group, plc (bbb)

Impaired Loan Ratio



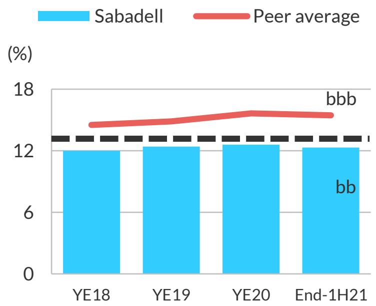
Source: Fitch Ratings, Banks

Operating Profit/RWAs



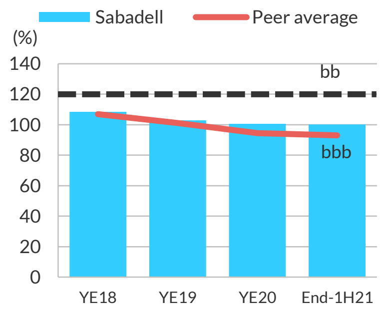
Source: Fitch Ratings, Banks

Regulatory CET1 ratio



Source: Fitch Ratings, Banks

Loans/Deposits Ratio



Source: Fitch Ratings, Banks

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			BBB+ or BBB
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		✓	

Sabadell's Support Rating of '5' and Support Rating Floor of 'No floor' reflect Fitch's belief that senior creditors can no longer rely on receiving full extraordinary support from the sovereign in the event that Sabadell becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors to participate in losses, instead of or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **Banco de Sabadell, S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco de Sabadell, S.A. has 5 ESG potential rating drivers

- Banco de Sabadell, S.A. 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 highest level of ESG credit relevance is a score of ‘3’. ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

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