FitchRatings

Banks
Retail & Consumer Banks
United Kingdom

The Co-operative Bank p.l.c.

Key Rating Drivers

Capital and Profitability Pressures: The Co-operative Bank p.l.c. is a medium-sized domestic bank, whose ratings primarily reflect weaknesses in its capitalisation. The weaknesses result from its loss-making structure combined with the need to grow. The ratings also consider the business model, focusing mainly on underwriting low-risk mortgages which, while resulting in healthy loan quality, also requires greater mass. It has good liquidity and a resilient franchise.

Structurally Unprofitable: The bank has reported losses since 2012. Its near-term earnings outlook has stabilised as wider asset margins and additional time provided by the Bank of England (BoE) to meet more onerous debt requirements should aid net interest income in 2021. Uncertainty remains about structural profitability in the medium term and over its ability to generate sufficient revenue to cover its high costs, including its additional investment needs.

Weak Capitalisation: The Co-operative Bank reported a common equity Tier 1 (CET1) ratio of 19.2% at end-2020. This should be viewed in the context of additional pressures from weak profitability and likely risk-weighted assets (RWAs) inflation in 2021/2022 from regulatory changes. Its Basel III leverage ratio was just 3.4% at end-2020, lower than peers' and leaving limited headroom above incoming regulatory requirements to absorb additional losses and to grow its balance sheet.

Unproven Business Model: The bank's business model currently focuses on building up low-risk, low-yielding, low loan/value (LTV) mortgages. Higher-yielding exposures within its risk appetite such as SME exposure and credit cards are low and untested at present. Although it is on a more stable footing, Fitch believes that, without a significant increase in scale or an increase in yields, the bank will be unable to cover its cost base and to be viable in the longer term.

Asset Quality Pressures Expected: Asset quality held up well in 2020 with Stage 3 loans (under IFRS 9) forming 0.3% of gross loans at end-2020 (0.8% when including purchased or originated credit impaired loans). We expect a worsening in asset quality in 2021 as government support schemes lapse and unemployment increases, affecting borrowers' ability to repay mortgages. However, given limited exposure to higher risk segments, we expect this deterioration to be manageable.

Retail Deposit Funded: The Co-operative Bank's loan-to-deposit ratio, 92% at end-2020, reflects a largely retail deposit-led funding model with limited reliance on wholesale funding outside BoE facilities. Liquidity is good, with the bank able to access contingent liquidity through its ability to pre-position mortgages with the BoE.

MREL Expectations Provide Uplift: The Co-operative Bank's Long Term-IDR is notched up from its VR due to Fitch's expectation that the minimum requirement for own funds and eligible liabilities (MREL) eligible debt issuance will provide an additional layer of protection for senior creditors. The bank's holding company parent issued GBP200 million of MREL-eligible senior debt in 2020. This was downstreamed to the bank in a structurally subordinated way. The Co-operative Bank currently meets its interim MREL.

Rating Sensitivities

Negative Outlook: The Co-operative Bank's ratings could be downgraded if the continuing risks the bank faces as a result of the economic fallout arising from the pandemic put additional pressures on capital either through additional losses or fast growth.

Stabilisation: The most likely trigger for a positive ratings action would be evidence of medium-term earnings and capitalisation resilience. Ultimately, the bank will need to improve its capital position to support the viability of its business model.

Ratings

Foreign Currency	
Long-Term IDR	B
Short-Term IDR	B
Viability Rating	b-
Support Rating	5
Support Rating Floor	No Floor
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Upgrades The Co-operative Bank to 'B'; Negative Outlook (January 2021)

Global Economic Outlook (December 2020)

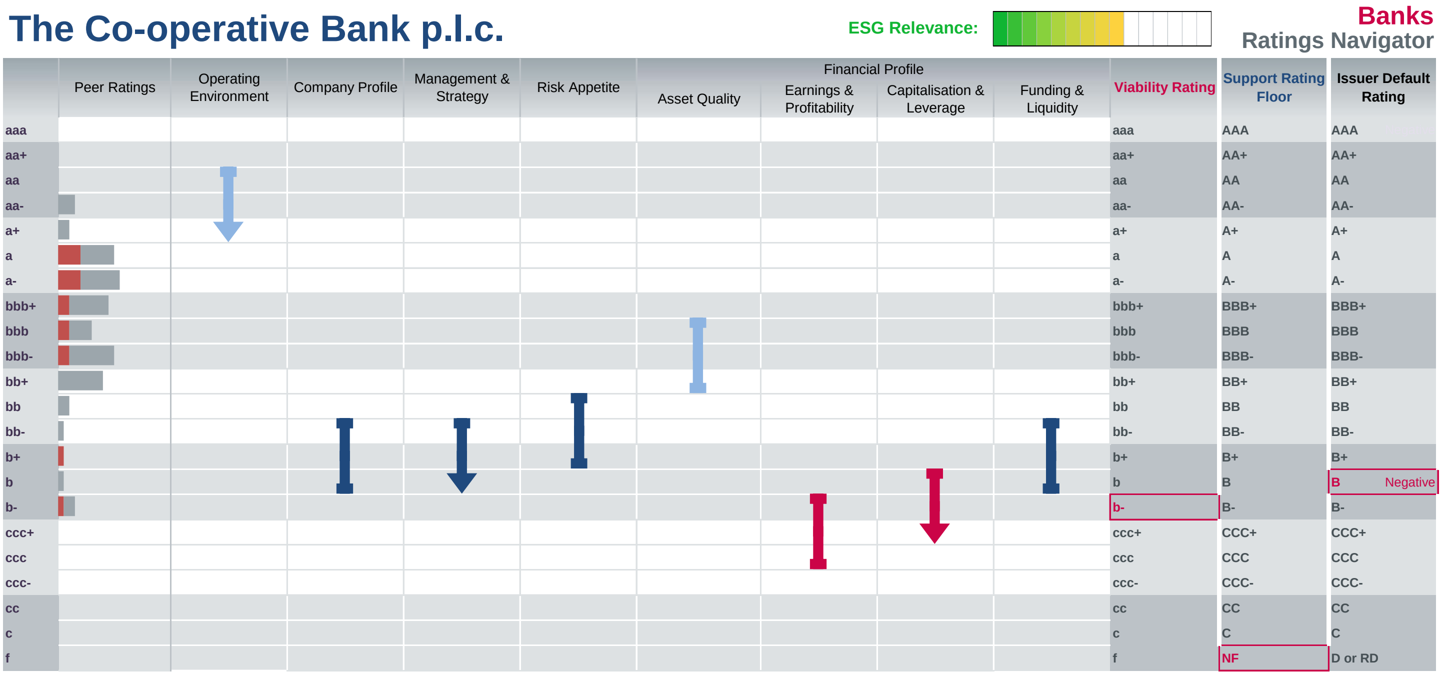
Fitch Affirms the UK at 'AA-'; Outlook Negative (January 2021)

Analysts

Claudia Nelson
+44 20 3530 1191
claudia.nelson@fitchratings.com

Christopher Ogunleye
+44 20 3530 1192
christopher.ogunleye@fitchratings.com

Ratings Navigator



Significant Changes

Outlook revised to Negative

We have removed the Negative Rating Watch from The Co-operative Bank's ratings and assigned a Negative Outlook on the Long-Term IDR to reflect the receding near-term risks to the bank's credit fundamentals. In our opinion, the Co-operative Bank's ratings currently have sufficient headroom to withstand pressure resulting from Fitch's estimated 10.3% GDP decline in 2020, followed by a forecast 5.0% growth in 2021. Nonetheless, we believe its ability to execute its strategy in these circumstances remains at risk.

While GDP growth expectations have improved slightly following the signing of a Brexit deal and a relatively fast vaccination rollout plan, significant downside risks to our economic forecasts remain, including the implications of additional lockdown measures, for example, the third nationwide lockdown in 1Q21. Higher unemployment than Fitch forecasts, as well as lower economic growth, could result in impaired loans, and loan losses, rising in 2021 by more than planned. Furthermore, its ability to grow its business could be delayed.

The Co-operative Bank has been given a one-year extension by the regulator to meet end-state MREL as a result of a consultation paper published at end-2020. This allows the bank to delay MREL related issuance, which had previously been planned for 2021.

Housing Market Stronger than Expected

Following the easing of the UK's spring 2020 lockdown restrictions, the housing market re-opened with very high levels of transactions as a result of pent-up demand, as well as because of buyers being attracted by a temporary reduction in stamp duty (transaction tax) on property sales. Exceptionally strong demand for mortgages has led to a widening of net interest spreads on new lending, providing a boost to earnings for the bank and other UK mortgage lenders. Fitch expects a moderate decrease in house prices in 2021 (4%-6%). This will be as a result of increases in stamp duty, a sharp rise in unemployment, and continued uncertainties about the UK economy, which we expect will also lead to the strong mortgage loan volumes of 2H20 returning to lower levels.

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

Brief Company Summary

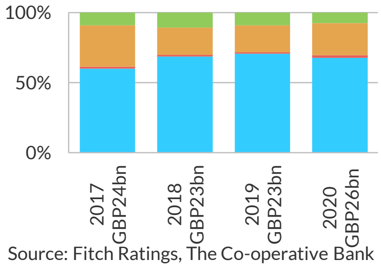
Resilent Franchise; Business Model Vulnerability

The Co-operative Bank is a UK-based medium-sized bank. Following several years of restructuring and changed ownership it has been re-focusing on mortgages and savings. At the same time it has been investing in the business, in the expectation of fast loan growth in the mortgage sector. However, its cost base is high for a bank with a focus on low risk/low return lending, with the challenge now facing the bank of either increasing assets (either through very fast loan growth, or in higher yielding assets) or a material cost reduction. Uncertainties about its ability to either diversify or grow the business at the necessary pace, and its limited capital availablity, puts the bank's viability under pressure given its business model.

The bank has a small market share in mortgages (about 1%) and its ability to set prices is low, given the UK's competitive mortgage market. We do not expect this to change materially over the rating horizon. Similar to other UK mortgage lenders it derives the majority of its operating income from net interest income on loans.

The bank closed 18 branches in 2020 and reduced headcount by 350 to save costs and as its digital investments and focus on intermediated mortgages reduced reliance on these branches.

Assets



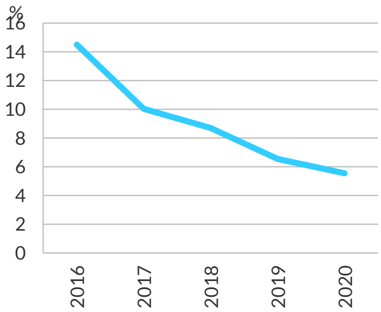
Source: Fitch Ratings, The Co-operative Bank

Improving Execution Record

The Co-operative Bank is in the third year of its turnaround plan. The first phase was completed with pension scheme sectionalisation, the separation from The Co-operative Group, improving risk governance, and a substantial fall in the Pillar 2A requirement (5.55% of end-2019 RWAs). We consider the banks' execution record to be improving as the bank initiates its turnaround plan. But challenges remain, with the biggest obstacle being a return to structural profitability and internal capital generation.

The bank has also suffered a high level of management turnover, which has also put pressure on the team to continue on its set strategy. We believe the management team has the experience and depth to run the bank, and for corporate culture to be consistent. We do not believe that the new management team plans a change in short term strategy or in its turnaround plan.

Falling Pillar 2A



Source: The Co-operative Bank, Fitch Ratings

Short Term Outlook Remains Negative

The Co-operative Bank has been reporting operating losses for several years (since 2012) as significant investment, a high cost base, deleveraging and tight capital have all weighed on its ability to generate profits. We consider the current crisis has put pressure on the timing of the bank's turnaround plan and ability to execute it, particularly in light of the expected increase in loan impairment charges which we believe will follow our forecast increase in unemployment.

However, a strong mortgage market, an extension to the MREL end-state timeline and Term Funding Scheme with additional incentives for SMEs (TFSME) has relieved some of this pressure and put the bank on firmer grounding. At the same time, the bank still has some outstanding projects in which it needs to invest to simplify and rationalise its systems and operations.

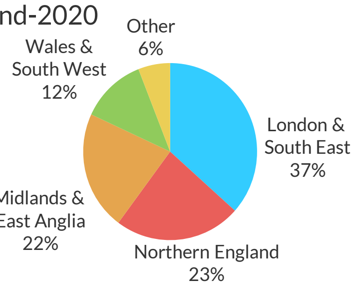
Overall we believe headwinds remain in its ability to execute its strategic goals to improve revenue geneation sufficiently to grow and diversify as originally planned, although these challenges have now become less immediate.

Improved Underwriting Standards; Controlled Growth

The bank has gradually tightened its underwriting standards,which are now line with other UK mortgage lenders primarily writing low margin, low LTV residential and Buy-to-Let (BTL) mortgages with a small amount of unsecured and higher (up to 90%) LTV lending. Risks to areas where real estate prices are more "frothy", such as London and the south-east of England (just over a third of the book) are controlled by keeping LTVs lower than average. Legacy, higher-risk or lower yielding assets have decreased significantly as the bank has securitised or allowed these assets to run off.

Legacy loans formed 4% of gross loans at end-2020. We view the risks from these loans as limited as they are now either low-risk but very low-yielding, or in the case of loans to borrowers with weaker profiles they have seasoned over a number of years, lowering their LTV.

Mortgage Book by Geography
end-2020



Source: Fitch Ratings excludes legacy portfolios, The Co-operative Bank

Summary Financials and Key Ratios

		31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
	Year End	Year End	Year End	Year End	Year End
	USDm	GBPm	GBPm	GBPm	GBPm
	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified	Audited - Unqualified
Summary Income Statement					
Net interest and dividend income	358	266.9	310.0	359.4	263.7
Net fees and commissions	32	23.5	20.7	20.2	26.8
Other operating income	33	24.9	55.9	-10.9	14.8
Total operating income	423	315.3	386.6	368.7	305.3
Operating costs	531	395.4	478.7	477.5	469.6
Pre-impairment operating profit	-107	-80.1	-92.1	-108.8	-164.3
Loan and other impairment charges	29	21.6	-2.5	-5.5	1.9
Operating profit	-136	-101.7	-89.6	-103.3	-166.2
Other non-operating items (net)	-3	-2.0	-62.5	-37.4	-8.2
Tax	-11	-8.0	0.9	-72.0	-16.7
Net income	-128	-95.7	-153.0	-68.7	-157.7
Other comprehensive income	-56	-41.8	14.8	330.3	21.7
Fitch comprehensive income	-185	-137.5	-138.2	261.6	-136.0
Summary Balance Sheet					
Assets					
Gross loans	25,130	18,725.4	17,945.1	17,786.6	16,824.5
- of which impaired	84	62.9	79.5	136.3	396.9
Loan loss allowances	58	42.9	26.7	52.7	80.0
Net loans	25,072	18,682.5	17,918.4	17,733.9	16,744.5
Interbank	720	536.2	474.3	485.8	574.8
Derivatives	435	324.0	285.9	245.6	302.7
Other securities and earning assets	1,573	1,172.5	1,651.9	1,967.6	2,422.9
Total earning assets	27,800	20,715.2	20,330.5	20,432.9	20,044.9
Cash and due from banks	5,204	3,877.8	2,153.5	1,843.8	4,032.1
Other assets	1,351	1,006.5	951.5	826.1	413.1
Total assets	34,355	25,599.5	23,435.5	23,102.8	24,490.1
Liabilities					
Customer deposits	27,331	20,365.8	18,996.9	18,735.9	20,635.0
Interbank and other short-term funding	2,773	2,066.4	1,143.7	1,433.5	1,122.7
Other long-term funding	1,526	1,137.0	1,071.7	617.6	627.4
Trading liabilities and derivatives	456	340.1	288.0	260.6	315.0
Total funding	32,086	23,909.3	21,500.3	21,047.6	22,700.1
Other liabilities	290	215.8	323.4	305.1	284.4
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	1,979	1,474.4	1,611.8	1,750.1	1,505.6
Total liabilities and equity	34,355	25,599.5	23,435.5	23,102.8	24,490.1
Exchange rate		USD1 = GBP0.745156	USD1 = GBP0.76211	USD1 = GBP0.78768	USD1 = GBP0.74011

Source: Fitch Ratings, Fitch Solutions, The Co-operative Bank

Summary Financials and Key Ratios

	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-2.2	-1.9	-2.0	-3.3
Net interest income/average earning assets	1.3	1.5	1.8	1.2
Non-interest expense/gross revenue	125.4	123.8	129.5	154.0
Net income/average equity	-6.1	-9.0	-4.2	-14.6
Asset quality				
Impaired loans ratio	0.3	0.4	0.8	2.4
Growth in gross loans	4.4	0.9	5.7	-14.1
Loan loss allowances/impaired loans	68.2	33.6	38.7	20.2
Loan impairment charges/average gross loans	0.1	0.0	0.0	0.0
Capitalisation				
Common equity Tier 1 ratio	19.2	19.6	22.3	24.7
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	31.1	32.4	27.9
Tangible common equity/tangible assets	5.5	6.4	7.1	5.8
Basel leverage ratio	3.4	3.9	4.7	n.a.
Net impaired loans/common equity Tier 1	2.2	5.6	7.4	25.2
Net impaired loans/Fitch Core Capital	n.a.	3.5	5.1	22.3
Funding and liquidity				
Loans/customer deposits	92.0	94.5	94.9	81.5
Liquidity coverage ratio	193.4	173.7	153.8	213.0
Customer deposits/funding	86.4	89.6	90.1	92.2
Net stable funding ratio	138.2	139.1	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, The Co-operative Bank

Key Financial Metrics – Latest Developments

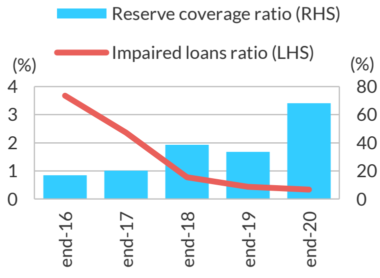
Asset Quality Under Pressure

The Co-operative Bank's asset quality has improved significantly since the capital raise in 2017 as the bank has gradually sold large parts of its legacy loan books so it now accounts for only 4% of gross loans. The Co-operative Bank is now establishing a record of low LTV lending primarily in owner-occupied residential mortgages (92% of the mortgage book) with limited exposure to BTL (8%). This has brought asset quality closer in line with other UK mortgage lending peers with Stage 3 loans accounting for 0.3% of gross loans at end-2020. However, Stage 3 specific coverage was just 12%, which is low but reflects the largely secured nature of the loan book and the low LTVs. This has come at the cost of the loan book now being low-yielding, which may not be sustainable, in relation to the cost base, for a bank of this size in the long term.

We expect the fallout from the coronavirus crisis will lead to higher asset non-performance in 2021. This is due to higher unemployment affecting the ability of borrowers to repay mortgages, the general affordability of the housing market, and the ability of renters to fulfil their obligations to BTL landlords. The extent of asset quality deterioration is mitigated by the bank's largely collateralised loan book, with lower exposure to unsecured retail and SME lending at 2% and 1% respectively, reducing the risks from these portfolios. At the current rating level there is headroom for moderate deterioration.

Non-loan assets mainly consisted of cash (GBP3.9 billion at end-2020), an investment securities portfolio (GBP1.1 billon) and a large (GBP650 million) retirement benefit asset. The investment securities portfolio mainly consisted of highly rated government and public sector bonds, and residential mortgage-backed securities.

Asset Quality



Source: Fitch Ratings, The Co-operative Bank

Profitability Outlook Improved

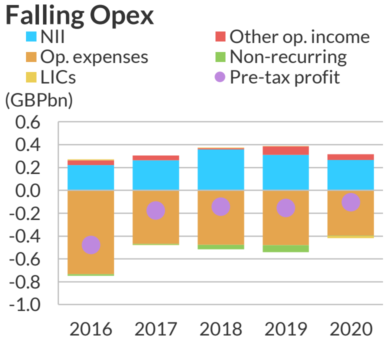
The Co-Operative Bank has been structurally loss-making since 2012, reflecting a business which has needed to invest to meet regulatory requirements (the separation from The Co-operative Group, for example, as well as improvements in risk and governance). It has also needed to invest in risk controls for higher-margin lending and digital capabilities. We believe the outlook has stabilised for profitability but long-term questions remain about the bank's structural profitability without a clear direction on growth and the segments of the market it wants to enter.

The bank's net interest margin is low and has been under pressure from competition and as higher yielding legacy assets were either securitised or have run off. We expect margin stabilisation that occurred in 2H20 to continue into early 2021 as asset margins have widened and as new business benefits from more attractive yields. Low-cost TFSME funding as well as cheaper deposits should help to maintain relatively stable margins as the larger banks re-enter the market and demand slows into the medium term.

The cost-to-income ratio remained unsustainably high in 2020 but the bank has taken action to reduce costs by reducing variable pay and delaying projects. It does not expect to see benefits from these projects in the lower loan growth environment. It is likely that some of these projects will be enacted in some form as the business grows.

LICs increased significantly in 2020 but at GBP22 million (2019: a write-back of GBP2.5 million) or 0.1% of gross loans, they remain low. The increase from cyclical lows reflects adjustments to economic scenarios under IFRS9. We expect these will remain elevated over the rating horizon as they increase with stage migration and after payment holidays lapse. Delays in repossessions would also result in higher LICs and remain a possibility as our estimates assume an ability to repossess and sell collateral.

Falling Opex



Source: Fitch Ratings; The Co-operative Bank

Weak Capitalisation

The Co-operative Bank's CET1 ratio is high at 19.2%, reflecting the low risk nature of its loan book, with an average risk weighting of its mortgages under IRB at around 12%. Capitalisation will remain under pressure from weak profitability, leaving limited headroom above its minimum CET1 requirements of 12.8% (down from 13.5% at end-3Q20). The recent reduction in the Pillar 2A requirement to 5.55% of end-2019 RWAs (previously 6.54%), and the stabilisation of the outlook for profitability, should aid capitalisation metrics. But the metrics remain vulnerable to greater-than-expected losses and RWAs inflation. The bank's Basel III leverage ratio of 3.4% at end-2020 is also a constraint as it does not benefit from risk adjustments, and the additional growth needed will pressure this ratio.

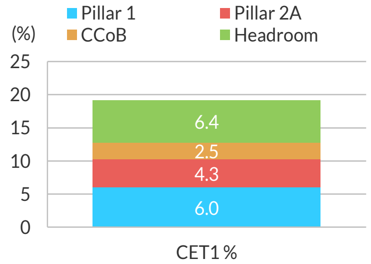
The bank's Total Capital Requirement (TCR) was 13.7% at end-2020, in addition to which the bank had a buffer requirement of 2.5% to be met with CET1. This compares with a reported ratio of 23.7%, which was mostly in the form of CET1 and GBP200 million of Tier 2 debt.

We expect continued pressure on capitalisation metrics in 2021. Despite signs of profitability stabilisation, falls in the housing price index HPI, growth and regulatory requirements will have implications on risk adjusted capitalisation metrics. Lower risk rates for Coronavirus Business Interruption Loans and Bounce Back Loans mitigate this but the leverage ratio, which becomes binding in mid-2021 does not benefit from the lower risk weights assigned to government-backed programmes.

The bank currently meets interim MREL requirements but will require around GBP350 million of additional issuance to meet the end-state requirements of two times the total capital requirement, based on current growth projections. Provided market conditions remain supportive we believe that the bank should be able to issue the required MREL-eligible debt, although this is likely to have negative implications for profitability.

CET1 Headroom

(End-2020)



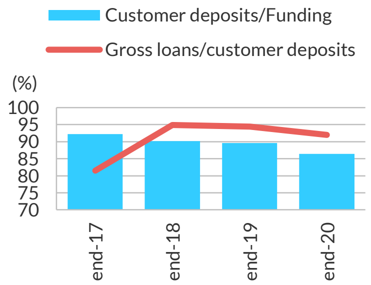
CCoB- Capital Conservation Buffer
Source: Fitch Ratings, The Co-operative Bank

Resilient Deposit Base; Limited Wholesale Franchise

The Co-operative is primarily funded by deposits (86% of funding at end-2020), most of which are retail and which have proved to be loyal and stable. Its ability to access wholesale funds, however is considerably weaker than its UK peers despite its recent access to MREL-eligible senior debt. Its access to secured market has been more reliable. Wholesale funding consisted of GBP483 million of covered bonds, GBP250 million of mortgage backed securities, and GBP200 million of Tier 2 debt and GBP200 million of senior non-preferred debt downstreamed from the intermediate holding company. However, its need to access the wholesale markets, apart from the additional MREL requirements, has been reduced by the availability of the TFSME. The bank has drawn GBP1.75 billion of TFSME and has access to significant additional drawings. This low-cost funding is expected to become a larger proportion of the bank's funding over the next few years, but with a four-year payback period the bank continues to face refinancing risks in the longer term.

On-balance sheet liquidity is sound, supported by a large buffer of high-quality liquid assets, which accounted for 16% of total assets at end-2020, the majority of which is held in the form of BoE reserves. The bank had a strong 193% liquidity coverage ratio at end-2020, comfortably above the minimum regulatory requirement.

Funding Profile



Source: Fitch Ratings, The Co-operative Bank

Sovereign Support Assessment

The Co-operative Bank's Support Rating of '5' and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on extraordinary support from the UK authorities if The Co-operative Bank becomes non-viable. This is because of UK legislation and regulations that provide a framework that is likely to require senior creditors to participate in losses after a failure and because of the bank's low systemic importance.

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

Environmental, Social and Governance Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

The Co-operative Bank p.l.c.

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

The Co-operative Bank p.l.c. has 5 ESG potential rating drivers

- The Co-operative Bank p.l.c. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

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

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

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

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

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

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

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

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.