FitchRatings

Banks
Universal Commercial Banks
Portugal

Novo Banco, S.A.

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Viability Rating	bbb
Government Support Rating	ns
Sovereign Risk	
Long-Term Foreign-Currency IDR	A-
Long-Term Local-Currency IDR	A-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Positive
Sovereign Long-Term Local-Currency IDR	Positive

Key Rating Drivers

Business Profile, Capital Drive Ratings: Novo Banco S.A.'s ratings reflect its adequate franchise in Portugal and stable business model geared towards retail and commercial banking, which results in healthy profitability and satisfactory capital buffers of regulatory requirements. The ratings also incorporate a stable funding profile and improving asset quality, albeit still weaker than higher-rated domestic peers.

More Resilient Operating Environment: The Portuguese banking sector has significantly increased its resilience to shocks due to loan book deleveraging and structurally improved asset quality, profitability and capitalisation. We expect lower indebtedness, together with falling interest rates and a healthy GDP growth (above eurozone average) to support business volume growth for Portuguese banks.

Adequate Franchise: Novo Banco is the fourth-largest bank in Portugal with market shares of about 9% and 10% in deposits and loans, respectively. The successful restructuring transformed Novo Banco into a cost-efficient and simplified bank focussing on traditional banking services to corporates and retail customers. The management is preparing the bank to be listed, while increasing the revenue diversification and prudently growing the loan book.

Improved Risk Profile: The material reduction in legacy bad assets should continue following the recent termination of the Contingent Capital Agreement (CCA) with the Portuguese Resolution Fund. Novo Banco has a slightly higher share of loans to SMEs and corporates than peers, but underwriting standards are prudent and in line with industry standards. The bank has recently reduced its earnings sensitivity to interest rates.

Decreasing Problem Assets: Novo Banco's impaired loans ratio is expected to have dropped to about 3.5% by end-2024, after a recent portfolio sale. This remains higher than for most Portuguese peers, partly due to lengthy work-out of assets under the CCA. The ratio should reduce towards 3% in 2025-2026. The legacy foreclosed real-estate assets decreased to a manageable 0.8% of total assets at end-September 2024, slightly higher than most Portuguese peers. High impaired loans coverage mitigates residual risks from legacy problem loans.

Strong Profitability: Novo Banco's profitability compares well with most mid-sized southern European peers. It benefits from a good domestic franchise and sound cost efficiency. Novo Banco's 9M24 operating profit rose increased to about 4% of risk-weighted assets (RWAs; 2023: 3.6%), benefiting from higher interest rates. We expect this ratio to decrease to about 3.5% in 2025, due to interest rate cuts. Earnings should remain strong over 2025-2026, due to lower interest-rate sensitivity, further growth of fee generating businesses and loan growth.

Satisfactory Capital Buffers: Novo Banco's buffers over regulatory requirements have improved significantly since end-2022, due to materially stronger profitability, high retention of capital and materially decreased unreserved problem assets. The fully loaded common equity Tier 1 (CET1) ratio was 20.7% at end-September 2024, including 9M24 results. We expect it to remain above 16% in 2025-2026, excluding potential significant share buy-backs or dividends. Our assessment also incorporates strong Basel leverage ratio.

Stable Funding, Adequate Liquidity Buffer: The funding is mainly sourced from a stable and granular retail deposit base. The loans/deposits ratio was about 87% at end-September 2024, according to Fitch Ratings' calculation. Funding diversification increased through use of repos, covered bonds and unsecured debt. Novo Banco's successful issuance of senior debt shows a significant improvement in investor confidence. The bank uses unsecured wholesale funding mainly for compliance with minimum requirements for own funds and eligible liabilities (MREL).

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Upgrades Novo Banco to 'BBB'; Outlook Stable (December 2024)

Portuguese Banks - Peer Review (January 2024)

Western European Banks Outlook 2025 (December 2024)

Global Economic Outlook (December 2024)

Fitch Revises Portugal's Outlook to Positive; Affirms IDR at 'A-' (September 2024)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Negative rating pressure could arise if the bank's operating profit falls below 2% of RWAs for an extended period and the impaired loans ratio durably grows above 4%. We would also downgrade the bank's ratings should the CET1 ratio fall materially below 14% without a credible plan to restore it above that level, following higher appetite for growth or significant payouts to shareholders.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade of Novo Banco’s ratings would require growing market shares in Portugal, increased business diversification towards recurring non-interest income and further asset-quality improvement. The bank’s ability to maintain its satisfactory capital ratios would also be key to an upgrade. This may be reflected, for example, in an impaired loans ratio closer to 2%, operating profit/RWAs consistently above 3.5%, and the CET1 ratio remaining at least about 15%. A potential upward revision of the operating environment would also be rating positive.

Other Debt and Issuer Ratings

Rating Level	Rating
Deposits	BBB+/F2
Senior preferred debt	BBB/F3

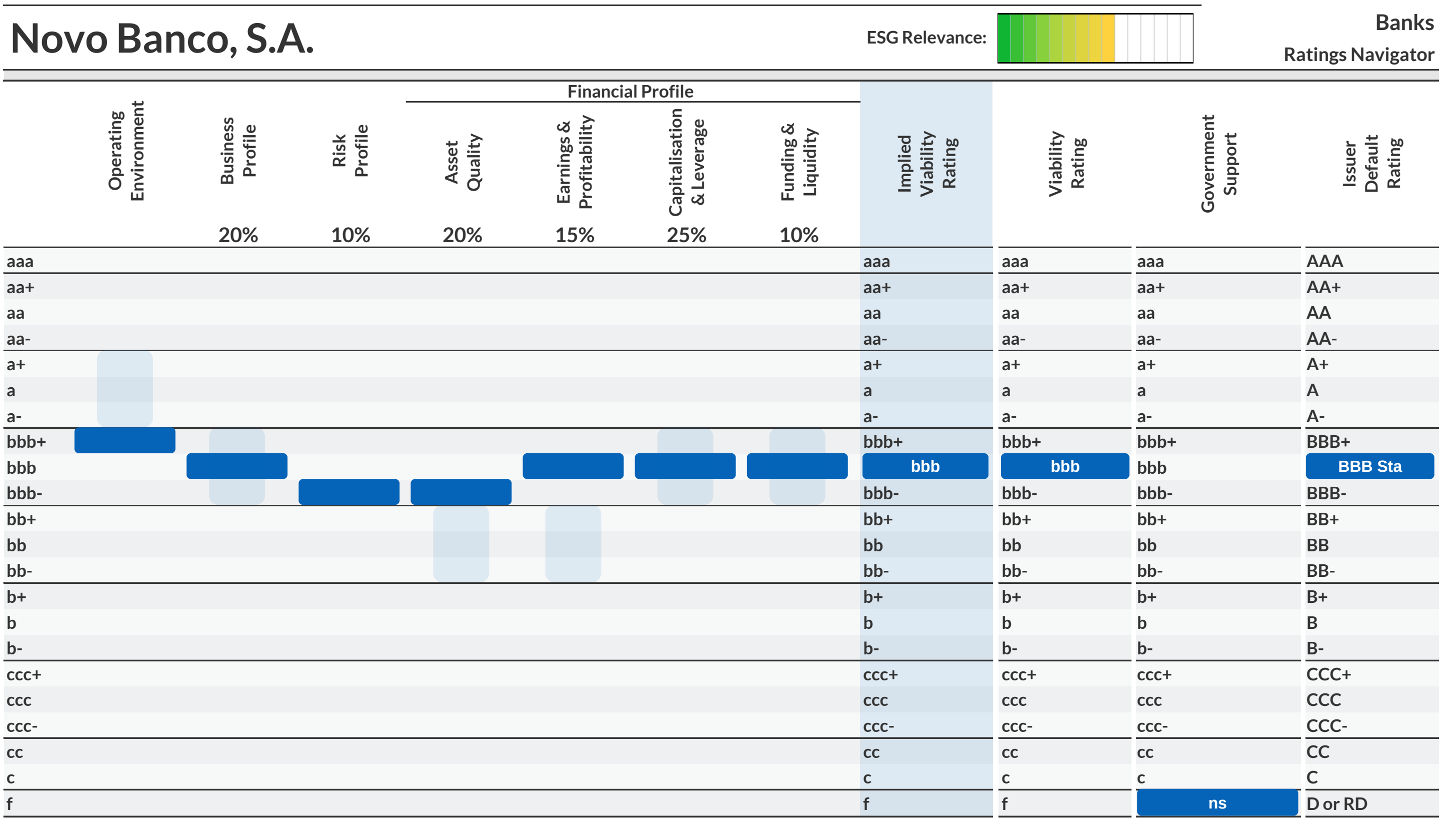
Source: Fitch Ratings

The Short-Term IDR of ‘F3’ is the lower of two options mapping to a Long-Term IDR of ‘BBB’, driven by Novo Banco’s funding and liquidity score of ‘bbb’.

The long-term deposit rating is one notch above Novo Banco’s Long-Term IDR, reflecting full depositor preference in Portugal and the structure of the bank’s resolution buffer, which includes senior preferred debt. The short-term deposit rating of ‘F2’ is the lower of two options mapping to a long-term deposit rating of ‘BBB+’, driven by Novo Banco’s funding and liquidity score of ‘bbb’

The long-term senior preferred debt rating is aligned with the bank’s IDRs because we expect that it will meet its MREL with a combination of senior preferred and junior instruments. We do not expect the buffer of senior non-preferred and more junior debt to exceed 10% of RWAs. The short-term debt rating is aligned with the Short-Term IDR.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'bbb+' is below the 'a' implied score, due to the following adjustment reason: level and growth of credit (negative).

The asset quality score of ‘bbb-‘ is above the ‘bb’ implied score, due to the following adjustment reason: historical and future metrics (positive)

The earnings and profitability score of 'bbb' is above the 'bb' implied score, due to the following adjustment reason: historical and future metrics (positive).

Company Summary and Key Qualitative Factors

Business Profile

Novo Banco focuses on providing banking products and services to individuals, SMEs and corporates in Portugal (about 14% market share) and mortgage lending (about 9%), where it is willing to grow. The bank intends to increase its market share in mortgage loans closer to its natural market share of 10%. However, the bank recognises that it will be slow as it decided to exclude itself from higher risk mortgages (loans-to-value (LTV) above 85%). It focuses on low risk mortgage loans, where it has a pricing advantage.

The bank also offers ancillary products in insurance, payment transactions and asset management as well as trade finance. About 50% of fees relate to payment services, about 30% to banking services and about 20% to asset management and insurance. Despite that, revenue diversification into fee-generating businesses remains limited, as for other Portuguese banks. Consequently, increasing fee income is a key development objective.

Novo Banco was bought in 2017 by Lone Star, which since then owns 75% of the bank. The Portuguese' Resolution Fund used to own the remaining 25%, but its stake has decreased to reach 13.5% at end-September 2024. This is due to the conversion of DTAs, as the resolution fund is assuming full dilution in line with the terms of the sale agreement. The rest is owned by the Portuguese government.

The bank has improved the stability of its business model and is now turning to a growth phase after completing its restructuring. In addition, the CCA between Lone Star and the Portuguese Resolution Fund was terminated early. It included a dividend ban and made the assets under CCA more difficult to sell. This paves the way for a potential IPO to prepare the exit of Lone Star. This looks realistic, underpinned by the bank's strong and experienced management with a very clear strategy and good execution. We believe that Lone Star will retain a significant portion of the capital after the IPO and that the exit will be gradual.

Risk Profile

Novo Banco has significantly tightened its risk profile compared to the start of the restructuring process in 2017. The Portuguese operations represent the main area of credit risk, which accounted for slightly more than 90% of RWAs at end-September 2024. About 55% of its loans were corporate loans at end-September 2024, while the rest were split between mortgage loans (39%) and consumer loans (6%). The bank expects to grow its loan book selectively, and to maintain good pricing discipline. Novo Banco's underwriting standards are generally in line with other Portuguese banks or slightly more conservative for mortgage loans.

Novo Banco has a proportionally higher exposure to companies than its Portuguese peers. Underwriting standards for SMEs and larger corporates are adequate. Corporate lending primarily focuses on retail and services, tourism, logistics and transport, real estate, agribusiness and industry. About half of Novo Banco's residential mortgage loans in Portugal had an LTV ratio of below 50%, while the average LTV of the stock was about 50% at end-September 2024. Only 3% of the stock of residential mortgage loans had LTVs of above 80%, which is lower than its peers and well below prior years (end-2017: 20%). We view underwriting standards for mortgage loans as less stringent than European market practices, notably as maturities are longer and the Portuguese households' net worth remains below the European average.

Novo Banco's interest-rate risk in its banking book is its main market risk, managed via gap and duration analysis. As per its Portuguese peers, the bank has a large share of assets at floating rates, which leaves its revenue exposed to interest-rate volatility. The bank has significantly reduced its interest-rate risk vulnerability through an increased use of interest-rate swaps (IRS) and origination of fixed-rate assets. The bank estimates that a decrease of rates by 100bp reduces net interest income (NII) by a moderate 6%.

Legacy problem asset valuation risks have been decreasing due to active management. Net repossessed real estate assets fell from EUR2.5 billion at end-2017 to about EUR0.4 billion by end-September 2024, of which half of is lands.

Financial Profile

Asset Quality

Novo Banco's asset quality has remained resilient to inflationary pressure and higher interest rates, to which borrowers in Portugal are particularly sensitive, considering that most loans are at floating rates. New inflows of impaired loans were limited in 2023-2024, illustrating Novo Banco's sound underwriting criteria. We expect inflows of impaired loans to remain stable in 2025-2026 thanks to healthy GDP growth in Portugal, lower inflation and decreasing interest rates. The decrease of the impaired loans ratio benefitted from the active management of legacy bad loans and sound underwriting of new loans.

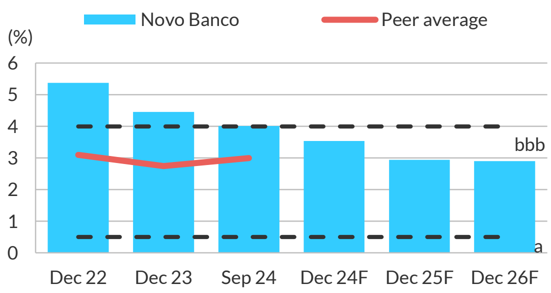
The high loan loss allowance coverage ratio of impaired loans (89% at end-September 2024) supports Novo Banco's ability to dispose of its legacy impaired loans. Loan-impairment charges should decline to a more structural level of 30bp-35bp of loans once the clean-up of legacy assets is finalised.

The quality of mortgage loans will remain stable (impaired loans ratio of about 1% at end-September 2024) due to a steady unemployment rate and strict underwriting standards. The latter involved stress-testing borrowers' ability to repay against a +300bp increase in Euribor rates, when rates were negative. In addition, lower inflation and interest rates support borrowers' financial stability. Recovery efforts should absorb new defaults from financially weaker households, as long as the unemployment rate does not deviate from our current expectations.

There are higher risks in the corporate loan portfolio, as illustrated by the impaired-loans ratio of about 5.8% at end-September 2024. However, the quality of the book proved resilient to recent stress, including COVID-19, higher rates, and inflation. This is because corporate profits have increased in Portugal as companies managed to pass inflation costs on to consumers. The concentration risks by sector and counterparty are manageable.

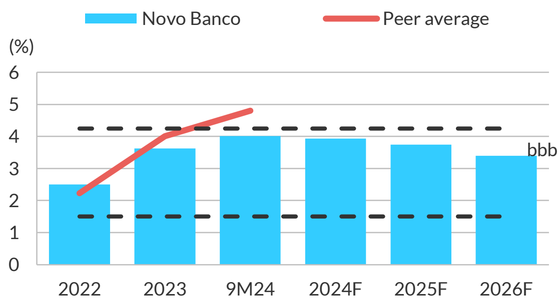
The risks in foreclosed real estate and investment properties will continue shrinking. This portfolio represented about 15% of fully loaded CET1 capital. Recent property sales were made at prices above book value.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

The bank's recurring earnings generation capacity has improved steadily since 2017. The risks coming from legacy problem assets in the balance sheet have significantly reduced. Therefore, we no longer expect high restructuring costs to weaken profitability. Similar to other Portuguese banks, Novo Banco's revenue has benefited strongly from higher interest rates. This results mostly from the bank's large excess of floating-rate assets and cash buffers, over fixed-rate liabilities and contained deposits beta.

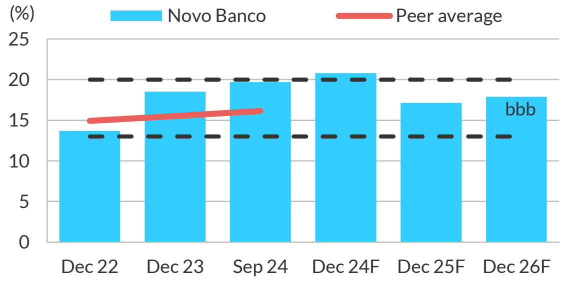
Novo Banco's profitability was stable yoy in 9M24. The impact on NII from higher deposits remuneration was offset by further repricing of loans, and higher income from the securities portfolio. We expect Novo Banco's active hedging strategies will mitigate future decreases in Euribor rates. The bank has reduced its sensitivity to interest rates but we still forecast operating profit/RWAs to decrease to closer to 3%-3.5% in 2025-2026. The cost/income ratio remains low at about 37%, driven by higher revenue, a lean organisational structure and low-cost base in Portugal. It should increase due to lower revenue but to remain below the European average considering continued focus on operating expenses. This, together with higher fee income, will support profitability despite lower rates.

Capitalisation and Leverage

Novo Banco's capital ratios provide the bank with a satisfactory buffer over its requirements of about 9.3% for the CET1 ratio and 14.1% for the total capital ratio. The bank's capital started to grow in 2022, and Novo Banco generated about 700bp of CET1 capital compared to end-2022 supported by strong profitability metrics and high earnings retention. Novo Banco's regulatory Basel leverage ratio was relatively strong at 9.1% at end-September 2024 (including 9M24 results), partly reflecting the bank's high RWA density (47% at end-September 2024) by European standards.

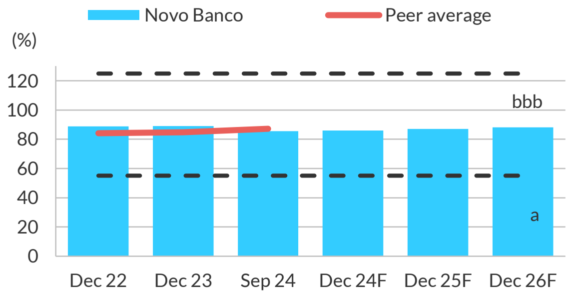
The increase in the CET1 ratio enabled Novo Banco to meet its 1 January 2025 MREL binding target of 23.47% of the total risk exposure amount (TREA) plus the combined buffer requirement. No subordination requirements have been applied to Novo Banco, and so its build-up of MREL debt buffers has been based on senior preferred for funding cost optimisation reasons.

CET1 Ratio



Note: Forecasts for 2024, 2025 and 2026 assume a dividend payout ratio in line with Novo Banco's current assumptions
Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Novo Banco's funding profile is underpinned by stable customer deposits, which accounted for 78% of total funding at end-September 2024. Customer deposits grew by a healthy 4.5% in 9M24, slightly higher than peers, and the cost of new term deposits started to decline from end-2023. The funding is complemented with repos (10% of total funding), ECB funding (3%) and wholesale funding (8%). The remaining portion of ECB funding matured in December 2024. The bank has improved its access to the unsecured wholesale market funding, as indicated by the issue of senior preferred instruments (EUR1 billion) and covered bonds (EUR500 million) in 2024.

The bank's liquidity position is comfortable. The bank's high-quality liquid assets were EUR13.4 billion at end-September 2024 (about 30% of total assets) and its liquidity buffer (including other collateral) reached EUR15.6 billion of total ECB-eligible assets, which comfortably covers all wholesale and central bank maturities.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics under the agency's *Bank Rating Criteria*. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category.

Peer average includes Banco Comercial Portugues, S.A. (VR: bbb), Caixa Geral de Depositos, S.A. (bbb+), Santander Totta, SGPS, S.A. (bbb), Banco BPI, S.A. (bbb-), BPER Banca S.p.A. (bbb-), Banca Popolare di Sondrio - Societa per Azioni (bbb-), Ibercaja Banco, S.A. (bbb), ABANCA Corporacion Bancaria, S.A. (bbb-), Santander Bank Polska (bbb). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Summary Financials

	30 Sep 24		31 Dec 23	31 Dec 22	31 Dec 21
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Not disclosed	Not disclosed	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	996	889.9	1,144.7	630.5	584.5
Net fees and commissions	265	237.0	265.0	290.2	278.2
Other operating income	-9	-8.3	76.2	213.0	111.0
Total operating income	1,252	1,118.6	1,485.9	1,133.7	973.7
Operating costs	460	411.3	557.6	489.6	448.9
Pre-impairment operating profit	792	707.3	928.3	644.1	524.8
Loan and other impairment charges	77	68.7	187.5	111.2	353.0
Operating profit	715	638.6	740.8	532.9	171.8
Other non-operating items (net)	14	12.4	13.2	-0.3	5.2
Tax	41	37.0	5.8	-53.3	-15.2
Net income	687	614.0	748.2	585.9	192.2
Other comprehensive income	n.a.	n.a.	164.5	-189.0	-222.1
Fitch comprehensive income	687	614.0	912.7	396.9	-29.9
Summary balance sheet					
Assets					
Gross loans	28,648	25,588.0	25,488.6	25,617.4	24,898.6
- Of which impaired	1,150	1,027.0	1,133.0	1,376.4	1,748.8
Loan loss allowances	1,024	914.4	954.5	1,066.4	1,247.9
Net loans	27,625	24,673.6	24,534.1	24,551.0	23,650.7
Interbank	78	69.9	47.9	43.5	50.5
Derivatives	786	702.1	717.2	314.5	313.5
Other securities and earning assets	12,710	11,352.4	9,745.7	11,483.7	11,193.6
Total earning assets	41,199	36,798.0	35,044.9	36,392.7	35,208.3
Cash and due from banks	7,240	6,466.3	5,867.2	6,599.1	5,871.5
Other assets	2,594	2,316.5	2,588.7	3,003.2	3,538.7
Total assets	51,032	45,580.8	43,500.8	45,995.0	44,618.5
Liabilities					
Customer deposits	33,478	29,901.4	28,617.9	28,826.9	27,582.1
Interbank and other short-term funding	4,817	4,302.5	7,111.7	10,156.0	10,745.1
Other long-term funding	4,458	3,981.9	1,107.6	1,629.0	1,514.2
Trading liabilities and derivatives	389	347.5	287.4	219.0	350.5
Total funding and derivatives	43,142	38,533.3	37,124.6	40,830.9	40,191.9
Other liabilities	2,298	2,052.7	1,953.8	1,652.5	1,277.1
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	5,592	4,994.8	4,422.4	3,511.6	3,149.5
Total liabilities and equity	51,032	45,580.8	43,500.8	45,995.0	44,618.5
Exchange rate		USD1 = EUR0.893176	USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173

Source: Fitch Ratings, Fitch Solutions, Novo Banco

Key Ratios

	30 Sep 24	31 Dec 23	31 Dec 22	31 Dec 21
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	4.0	3.6	2.5	0.7
Net interest income/average earning assets	3.3	3.1	1.7	1.6
Non-interest expense/gross revenue	36.9	37.7	43.5	46.3
Net income/average equity	17.6	18.9	17.8	6.0
Asset quality				
Impaired loans ratio	4.0	4.4	5.4	7.0
Growth in gross loans	0.4	-0.5	2.9	-1.0
Loan loss allowances/impaired loans	89.1	84.3	77.5	71.4
Loan impairment charges/average gross loans	0.3	0.4	0.1	0.6
Capitalisation				
Common equity Tier 1 ratio	19.7	18.5	13.7	11.1
Fully loaded common equity Tier 1 ratio	19.6	18.2	13.1	10.1
Tangible common equity/tangible assets	9.1	8.1	5.6	6.9
Basel leverage ratio	8.6	8.1	6.1	6.0
Net impaired loans/common equity Tier 1 capital	2.7	4.7	10.6	18.1
Funding and liquidity				
Gross loans/customer deposits	85.6	89.1	88.9	90.3
Gross loans/customer deposits + covered bonds	83.3	n.a.	n.a.	n.a.
Liquidity coverage ratio	186.0	168.7	210.0	182.0
Customer deposits/total non-equity funding	78.3	77.7	71.0	69.2
Net stable funding ratio	119.0	117.8	113.0	117.0

N.B; capitalisation ratios exclude 3Q24 results
Source: Fitch Ratings, Fitch Solutions, Novo Banco

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bbb+ or bbb
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	A-/ Positive
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Negative
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

Novo Banco's 'no support' Government Support Rating reflects our view that although external extraordinary sovereign support is possible it cannot be relied upon. Senior creditors can no longer expect to receive full extraordinary support from the government in the event that the bank 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 requires senior creditors participating in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **Novo Banco, S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

				ESG Relevance to Credit Rating
Novo Banco, S.A. has 5 ESG potential rating drivers Novo Banco, 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.	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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

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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