FitchRatings

Banks
Universal Commercial Banks
Spain

Ibercaja Banco, S.A.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb+
Support Rating	5
Support Rating Floor	NF
Sovereign Risk	
Long-Term Foreign- and Local-Currency IDRs	A-
Country Ceiling	AAA

Outlooks

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

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Fitch Revises Ibercaja's Outlook to Positive; Affirms at 'BB+' (September 2021)

Global Economic Outlook - September 2021

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

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

Analysts

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Key Rating Drivers

Capitalisation Drives Ratings: Ibercaja Banco, S.A.'s ratings reflect its improved capitalisation, which is now in line with that of its peers, stable funding and accelerated balance sheet de-risking in the past few years. Profitability is a rating weakness, despite a more diversified revenue profile than most of its peers, although Fitch Ratings expects this to improve in 2021-2023.

Improved Asset Quality: Ibercaja's problem asset ratio (which includes impaired loans and net foreclosed assets) has continued reducing in 2020-1H21 to 3.8% at end-June 2021 from 8% at end-2018. We expect some asset quality deterioration in 2H21-2022, although the bank's focus on retail mortgage loans and strengthened impaired loans coverage (68% at end-June 2021) provides protection in the current environment. Asset-quality performance has been better than expected to date, benefiting from borrower-support measures.

Modest Profitability: The bank's operating profitability has been affected in recent years by low interest rates, substantial restructuring costs, loan impairment charges (LICs) and provisions related to the acceleration of its asset quality clean-up, resulting in low operating profitability by Spanish and international standards.

Expected Improvement in Earnings: Ibercaja's profitability benefits from a sizeable insurance and asset management business that provides some revenue diversification and resilience, and supports potential for growth as the economic recovery gathers pace. Fitch's assessment assumes the operating profit-to-risk-weighted assets (RWAs) ratio will improve to levels close to 1.5% in 2021-2022 (from 0.4% in 2020, including restructuring costs), based on increased business activity, lower LICs, and the benefits of cost-reduction initiatives.

Adequate Capitalisation: Ibercaja's capitalisation is maintained with satisfactory buffers over regulatory minimum requirements, with the regulatory common equity Tier 1 (CET1) ratio at 13.5% at end-June 2021 (12.7% on a fully loaded basis). Ibercaja's capital encumbrance from unreserved problem assets has materially decreased in recent years (23% of end-June 2021 fully loaded CET1 capital). We expect the bank to maintain its fully-loaded CET1 at about 12.5%, while significantly improving its internal capital generation on improved earnings generation.

Stable Funding Profile: The bank's main funding source is a stable and granular retail deposit base, which fully funds the loan book. Wholesale funding is mostly in the form of covered bonds and ECB funding, which has strengthened the bank's ample liquidity. The bank has access to institutional markets for funding, although it is a less frequent issuer than larger domestic entities.

Rating Sensitivities

Profitability and Asset Quality: An improvement in Ibercaja's operating profitability to about 1.5% of RWAs and four-year average problem asset ratio towards below 4% on a sustained basis, while maintaining a fully-loaded CET1 ratio in line with its target of 12.5%, could support an upgrade. A stronger-than-expected economic recovery in Spain would also be rating-positive.

Downside Rating Risks: The Outlook could be revised to Stable if the bank does not deliver the targeted improvement in operating profitability or inflows of new impaired loans are higher than we currently expect. Triggers for a downgrade would include a structural deterioration in profitability as a result of permanently subdued business activity or larger-than-expected credit losses, resulting in a sustained decline in the bank's fully-loaded CET1 ratio. Material changes in risk appetite or the management of market risks could also be rating negative.

Debt Rating Classes

Rating level	Rating
Tier 2 subordinated debt	BB-
Additional Tier 1 notes	B

Source: Fitch Ratings

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

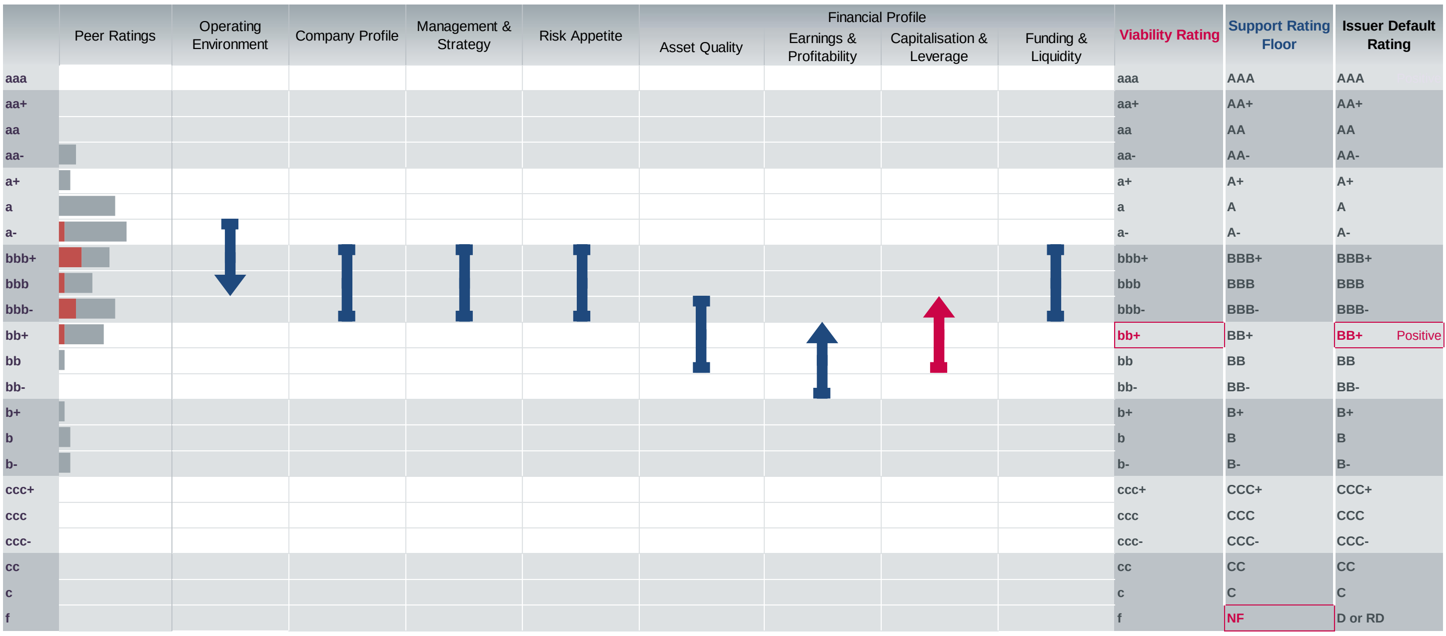
The rating of the bank's additional Tier 1 notes is four notches below Ibercaja's VR, in accordance with Fitch's criteria for rating hybrid instruments. This notching comprises two notches for loss severity in light of the notes' deep subordination, and two notches for additional non-performance risk relative to the VR, given fully discretionary coupon payments.

Ratings Navigator

Ibercaja Banco, S.A.

ESG Relevance:

Banks
Ratings Navigator



Significant Changes

Outlook Revision to Positive

Fitch revised the Outlook on Ibercaja's Long-Term Issuer Default Rating (IDR) to Positive from Negative to reflect our view that Ibercaja's improved capital levels and progress in its asset-quality clean-up and cost restructuring will likely strengthen the bank's credit profile to investment- grade level, despite expected pressure from the pandemic in 2021 and 2022. The Outlook revision also reflects our expectation that Ibercaja should be able to deliver on its strategic plans despite residual short-term risks to Spain's improved economic prospects.

Spain has been one of the most affected countries in Europe, with GDP contracting by 10.8% in 2020. However, Fitch expects a significant recovery of 6.3% in 2021 and 6.4% in 2022, with the economy returning to its pre-pandemic level by the end of 2022, supported by the easing in mobility restrictions, the recovery in the tourism sector and the government investment spending related to EU's Next Generation funds.

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 operating environment score of 'bbb+'. The main short-term risk to Fitch's projections is that a rise in coronavirus infections could result in renewed restrictions, of a milder nature than before but potentially affecting business activity. A further risk is the impact of the pandemic on the labour market once state support measures expire, in particular the furlough scheme.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colours – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Company Summary

Leading Regional Franchise

Ibercaja's business model focuses on providing financial services to households and SMEs. The bank has a leading position in the autonomous community of Aragon (with market shares of 31% for loans and 43% for deposits at end-March 2021) and in the province of Guadalajara (23% and 35%) as well as a significant presence in the provinces of Burgos, La Rioja and Badajoz (with market shares of about 15%). The group also has a well-established footprint in Madrid, Catalonia and Valencia. However, Ibercaja's national market share is small at about 3%.

Ibercaja's insurance and asset management market shares are larger than its national loan and deposit market shares, providing earnings diversification and stability throughout the interest rate cycle through fee income generation. Ibercaja's asset management business is the sixth largest by volume in Spain, with national market shares of close to 6%, and has consistently grown over the years despite periods of market volatility as clients seek investment alternatives amid low interest rates. The group is treated as a financial conglomerate for regulatory purposes because of the insurance business (insurance subsidiaries are risk-weighted).

New Strategic Plan, 2021-2023

Ibercaja disclosed a new strategic plan for 2021-2023, focused on improving profitability based on fee revenue growth and lower expenses, while completing the asset quality clean-up. The main financial targets are to attain a return on tangible equity (ROTE) of 7% in 2023, a gross problem asset ratio of below 5% (4.6% at end-June 2021) and to maintain a fully-loaded CET1 ratio of 12.5% with a dividend pay-out of 50%. The bank's execution record has been generally good in recent years although low interest rates have pressured profitability more than expected.

Ibercaja continues with its plan to undertake an initial public offering (IPO) because the majority owner of the bank (Ibercaja Banking Foundation, with a stake of 88%) has to reduce its stake to below 50%. This is to comply with the Banking Foundation Law and avoid the need to comply with a reserve fund requirement (1.75% of RWAs) applicable to any recapitalisation of the entity. The initial deadline for this requirement was 2020 but this was extended two years to end-2022 in light of the pandemic. The delay, however, has not prevented Ibercaja from improving its asset quality and capitalisation levels.

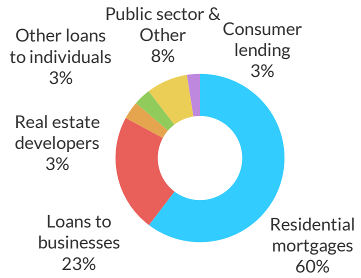
Higher-Than-Peers Exposure to Mortgage Lending

Credit risk is the bank's main risk, largely stemming from its lending book (51% of total assets at end-June 2021) and fixed income securities portfolio (28% including the insurance portfolio). The bank has a relatively high level of collateralisation, particularly residential mortgages with low loan-to value ratios (51% on average at end-June 2021). The mortgage lending portfolio is granular, mostly for primary residence in Madrid and Aragon, and with an average vintage of about 10 years. Ibercaja has not been active in consumer lending and this has been mostly granted to existing clients. Loans to businesses are partially secured and granted to small companies in its home region.

In 2020, the bank's performing loan book decreased by 2% due to high amortisations from the retail mortgage loans and despite the significant increase of new lending (+18%), which was mainly driven by state-guaranteed loans. In 1H21, the stock of performing loans stabilised as the growth in loans to businesses (5% YTD) offset further amortisations (loans to individuals declined 2% YTD). We expect the loan portfolio, particularly that related to businesses, to increase in 2H21-2022, driven by the bank's appetite, the economic growth and the Next EU Generation funds.

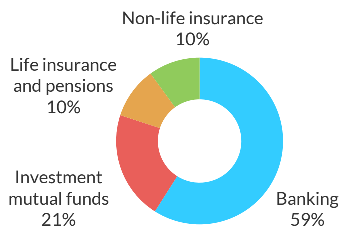
The bank's debt portfolio (excluding insurance business) represented 4x CET1 at end-June 2021, which is higher than at peers. The duration was relatively high at 5.6 years, with a yield of 0.35% (0.42% excluding SAREB), including mostly Spanish sovereign debt (90% of the total portfolio, including SAREB) and to lesser extent Italian sovereign (8%). The bulk of the portfolio is accounted at amortised cost. Interest risks stemming from insurance activities (EUR7.5 billion or 13% of assets) are modest as assets and liabilities are mostly matched. Compared to the banking portfolio, the exposure to private counterparties is high and the bulk of the investment portfolio is classified at fair value.

Loan Book at End-June 2021



Source: Fitch Ratings, Ibercaja

1H21 Operating Income Breakdown



Source: Fitch Ratings, Ibercaja. Excluding one-off gains and losses.

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)
	Reviewed – unqualified (emphasis of matter)	Reviewed – unqualified (emphasis of matter)	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	301	253.7	538.9	559.9	583.7
Net fees and commissions	241	202.8	374.1	393.7	374.9
Other operating income	36	30.3	88.9	-27.2	8.1
Total operating income	579	486.8	1,001.9	926.4	966.7
Operating costs	350	294.6	718.5	600.0	668.8
Pre-impairment operating profit	228	192.2	283.4	326.4	297.9
Loan and other impairment charges	45	38.1	219.6	124.7	154.7
Operating profit	183	154.1	63.8	201.7	143.2
Other non-operating items (net)	-23	-19.3	-10.3	-73.2	-62.2
Tax	48	40.7	29.9	44.6	40.0
Net income	112	94.1	23.6	83.9	41.0
Other comprehensive income	-18	-15.0	-10.0	-10.6	-74.7
Fitch comprehensive income	94	79.1	13.6	73.3	-33.7
Summary balance sheet					
Assets					
Gross loans	35,598	29,954.7	29,966.4	30,933.0	32,017.9
- Of which impaired	1,063	894.3	1,010.7	1,290.9	2,272.3
Loan loss allowances	717	603.7	644.9	642.0	1,116.7
Net loans	34,881	29,351.0	29,321.5	30,291.0	30,901.2
Interbank	455	382.9	205.3	537.4	148.9
Derivatives	107	90.1	147.5	146.2	168.8
Other securities and earning assets	23,646	19,897.3	18,439.4	17,786.5	17,665.1
Total earning assets	59,089	49,721.3	48,113.7	48,761.1	48,884.0
Cash and due from banks	6,807	5,727.6	7,572.6	3,929.2	1,118.2
Other assets	3,175	2,671.6	2,714.5	2,731.7	2,703.5
Total assets	69,070	58,120.5	58,400.8	55,422.0	52,705.7
Liabilities					
Customer deposits	42,088	35,416.1	36,242.8	32,885.2	31,687.8
Interbank and other short-term funding	8,688	7,310.8	6,592.0	4,501.5	1,357.5
Other long-term funding	2,899	2,439.6	2,966.1	6,061.6	8,091.3
Trading liabilities and derivatives	211	177.4	259.4	281.0	188.9
Total funding	53,887	45,343.9	46,060.3	43,729.3	41,325.5
Other liabilities	11,277	9,489.4	9,122.1	8,451.6	8,214.9
Preference shares and hybrid capital	416	350.0	350.0	350.0	355.0
Total equity	3,491	2,937.2	2,868.4	2,891.1	2,810.3
Total liabilities and equity	69,070	58,120.5	58,400.8	55,422.0	52,705.7
Exchange rate		USD1 = EUR0.841468	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, Ibercaja.

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	1.7	0.4	1.0	0.7
Net interest income/average earning assets	1.0	1.1	1.2	1.2
Non-interest expense/gross revenue	60.5	71.8	64.8	69.1
Net income/average equity	6.3	0.8	2.8	1.4
Asset quality				
Impaired loans ratio	3.0	3.4	4.2	7.1
Problem asset ratio	3.8	4.2	5.0	8.0
Growth in gross loans	0.0	-3.1	-3.4	-1.2
Loan loss allowances/impaired loans	67.5	63.8	49.7	49.1
Loan impairment charges/average gross loans	0.3	0.7	0.4	0.5
Capitalisation				
Common equity Tier 1 ratio	13.5	13.6	12.3	11.7
Fully loaded common equity Tier 1 ratio	12.7	12.6	11.4	10.5
Tangible common equity/tangible assets	4.2	4.1	4.4	4.4
Basel leverage ratio	6.0	6.3	5.9	6.0
Net impaired loans/common equity Tier 1	11.7	14.7	26.0	46.3
Funding and liquidity				
Loans/customer deposits	84.6	82.7	94.1	101.0
Liquidity coverage ratio	455.2	468.1	307.0	307.0
Customer deposits/funding	77.8	78.5	75.0	76.4
Net stable funding ratio	147.5	151.5	131.4	130.0

Source: Fitch Ratings, Fitch Solutions, Ibercaja.

Key Financial Metrics – Latest Developments

Improved Asset Quality

Ibercaja's impaired loan ratio decreased to 3% at end-June 2021 from 4.2% at end-2019 owing to a 26% reduction in impaired loans during the period. After selling impaired loan portfolios to institutional clients in 2019-2020, a relatively large share of impaired loans now relates to residential mortgage loans. Stage 2 loans increased 14% between end-2019 and end-June 2021 and represented 5% of gross loans at that date, below the sector average. Similar to other Spanish banks, the increase was concentrated in 2H20 and mainly reflects potential risks from borrowers most affected by the pandemic (i.e. hospitality, leisure, tourism and transport), some benefiting from state support measures. The stock of foreclosed assets declined by 15% between end-2019 and end-June 2021 and the bank resumed portfolio sales in 1H21.

The relatively contained use of moratoriums (3% of gross loans at end-June 2021, which is lower than the average for the sector) signals that borrowers' repayment capacity remained broadly adequate during the pandemic. Most of the moratoriums (75%) already expired by 2Q21, with outstanding balances representing below 1% of gross loans. About 4% of the expired moratoriums were classified as Stage 3 at end-June 2021 and were mostly unlikely to pay. Ibercaja had granted EUR2 billion of state-guaranteed loans by end-June 2021 (about 20% of total business loans), of which about 40% have requested term extensions.

The front-loading of LICs in 1H20 led to an increase in the coverage ratio of impaired loans to 68% at end-June 2021 (50% at end-2019). We expect the bank to use this overlay in 2H21-2022 once support measures phase out and asset quality deterioration materialises.

Profitability Recovery in 1H21

In 1H21 the operating profit/RWAs ratio materially improved to 1.7% from 0.4% in 2019 supported by the decline in LICs (minus 71% yoy), following the provisioning effort made in 1H20 and the good asset quality performance to date. Net interest income declined 6% in 1H21 due to loan book repricing, which was offset by an increase in fee income (+12%), particularly from non-banking activities, and higher trading gains.

The bank has implemented cost-efficiency programmes in recent years, although the cost-to-income ratio remains high (60% in 1H21). The bank has agreed on a redundancy plan affecting 15% of the staff, with staggered departures until 2Q22. The bank already booked the full restructuring costs in 2020 (EUR151 million, classified as operating expenses). Lower costs, along with continued growth in fee-based businesses and lower LICs, should bring structural improvements in Ibercaja's operating profitability.

Improved Capitalisation

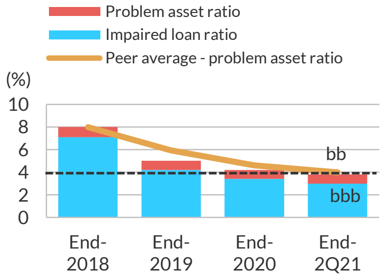
The regulatory and fully-loaded CET1 ratios were 13.5% and 12.7% at end-June 2021, respectively, up from 11.7% and 10.5% at end-2018. This improvement reflects organic capital generation, gains from the agreement with Caser (Spanish insurance company) and the EBA's new SME Supporting Factor regulations. Capital ratios also benefited from a significant decline in RWAs as state-guaranteed lending increased as substitutions for other types of lending. The regulatory total capital ratio of 18.1% includes EUR500 million of subordinated tier 2 debt issued in late-2019 and EUR350 million of Additional Tier 1 (AT1) notes issued in 2018. Ibercaja's capital ratios provide adequate buffers relative to requirements of 8.125% for the CET1 and 12.5% for the capital ratio (including the capital conservation buffer and applying Pillar 2 requirement flexibility). Ibercaja already complies with the interim Minimum Requirement for Eligible Liabilities (MREL, 17.9% to be met by 1 January 2022) with its total capital. The final MREL requirement is 20.9% and is to be met by 1 January 2024.

Adequate Funding and Liquidity

Customer deposits fund the bank's loan book (loans/deposits ratio of 85% at end-June 2021) and reliance on wholesale funding is moderate, primarily in the form of covered bonds and ECB funding (with TLTRO-III representing 13% of funding at end-June 2021). High quality liquid assets (24% of total assets, excluding the those from the insurance businesses) mainly comprised cash and deposits at central bank, self-retained debt issuances and Spanish public debt. Wholesale funding maturities are manageable in light of the bank's liquidity and largely relate to covered bonds and AT1 in 2023.

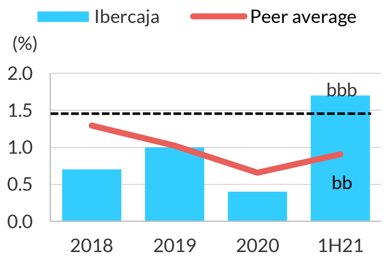
Notes on charts: Black dashed lines represent indicative quantitative ranges for core financial metrics given an operating score of 'bbb' category. Peers include: Ibercaja (VR: bb+), Abanca Corporacion Bancaria S.A. (bbb-); Unicaja Banco, S.A. (bbb-); Credito Emiliano SpA (bbb-) and BPER Banca SpA (bb+).

Asset Quality



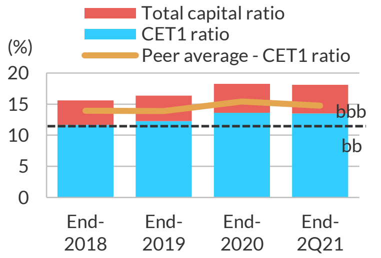
Source: Fitch Ratings, Banks

Operating Profit/RWAs



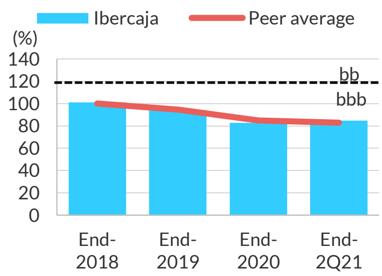
Source: Fitch Ratings, Banks

Risk-Weighted Capital Ratios



CET1 ratio used as benchmark line
Source: Fitch Ratings, Banks

Loans/Deposits



Source: Fitch Ratings, Banks

Sovereign/Institutional 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		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Ibercaja's Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'No Floor' reflect Fitch's belief that senior creditors of the bank can no longer rely on receiving full extraordinary support from the sovereign 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 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 **Ibercaja Banco, S.A.**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Ibercaja Banco, S.A. has 5 ESG potential rating drivers

- Ibercaja 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.

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'. 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

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