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FitchRatings

Banks
Universal Commercial Banks
Nigeria

Wema Bank PLC

Key Rating Drivers

Wema Bank PLC's Issuer Default Ratings (IDRs) are driven by its standalone creditworthiness, as expressed by its Viability Rating (VR). The VR reflects Wema's small franchise, high credit concentrations, aggressive loan and balance-sheet growth, and funding weaknesses. It also reflects good asset quality and Fitch Ratings' expectation of a significant improvement in capitalisation and leverage due to a material rights issue due to be concluded by end-2022.

Downside to Operating Conditions: Rising global risks will weigh on domestic operating conditions. Inflation (17.7% in May 2022) is expected to remain stubbornly high, posing to the risk that our real GDP growth forecasts of 3.1% in 2022 and 3.3% in 2023 could be lowered. However, these downside risks are mitigated by strong oil prices, which should also underpin growth in non-oil sectors and banks' asset quality.

Small Franchise: Wema has a small franchise, representing 2% of banking system assets at end-2021, which affects its cost of funding, revenue generation and risk diversification. Its leading position in digital banking is increasing customer numbers and transaction volumes and is improving profitability.

High Credit Concentrations: Asset quality risks could stem from rapid loan growth in recent years and large credit concentrations. Wema's 20 largest loans formed 30% of gross loans, or 251% of Fitch Core Capital (FCC), at end-2021. Oil and gas exposure accounted for only 13% of gross loans, well below domestic-rated peers, but equalled 107% of FCC at end-2021.

Improving Asset Quality: The impaired loans (Stage 3 loans under IFRS 9) ratio improved to 3.3% at end-1Q22 (end-2020: 5.2%) and specific loan loss allowance coverage of impaired loans was healthy at 77%. Restructured loans declined materially to 2.5% of gross loans at end-1Q22 (end-1H21: 35%) on the back of repayments and better business conditions. Stage 2 loans were only 3.8% of gross loans at end-1Q22, well below domestic-rated peers, reflecting lower exposure to the oil and gas sector.

Improving Profitability: Operating returns on risk-weighted assets (RWA) recovered strongly in 2021 to 3.5% from 1.7% in 2020, supported by higher revenues and lower loan impairment charges (LICs), with net income well above pre-pandemic levels. We expect operating returns on RWAs to continue improving to 4% in 2023 on the back of higher revenues, supported by asset growth and higher interest rates.

Rights Issue Improves Capital and Leverage: The expected rights issue will have a material positive impact on the bank's regulatory capital ratios, along with the impending Basel III requirements and its below-sector average tangible leverage ratio (end-1Q22: 4.4%). The bank expects to receive final regulatory approval to proceed with the NGN40 billion rights issue (10% of total RWA at end-1Q22) by end-July. Wema's total capital adequacy ratio (end-1Q22: 13.4%) is comfortably above the 10% minimum regulatory requirement.

Structurally Weak Funding: The funding base is weakened by a high reliance on expensive term deposits (49% of customer deposits at end-2021). The gross loans/customer deposits ratio is very low at 45%. Liquidity coverage in both local and foreign currencies is adequate.

Ratings

Foreign Currency	
Long-Term IDR	B-
Short-Term IDR	B
Viability Rating	b-
Government Support Rating	ns
National Rating	
National Long-Term Rating	BBB(nga)
National Short-Term Rating	F3(nga)

Sovereign Risk (Nigeria)	
Long-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B
Country Ceiling	B

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Fitch Affirms Wema Bank PLC at 'B-'; Outlook Stable (July 2022)

Nigeria's Complex Policy Approach Hampers Inflation Fight (June 2022)

Nigerian Banks Face Global Risk Transmission Despite Oil Boost (May 2022)

Fitch Affirms Nigeria at 'B'; Outlook Stable (March 2022)

Fitch Ratings 2022 Outlook: African Banks (December 2021)

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Ratings Sensitivities

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

The ratings could be downgraded if the right issue does not materialise, especially if asset growth remains strong, leading to tight capital buffers over the minimum regulatory requirement and a FCC ratio below 10%.

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

Positive rating action is unlikely at present unless the bank's franchise, capitalisation and funding and liquidity profile strengthen materially.

Significant Changes from Last Review

Issuer Level

Major Rights Issue to be Concluded By End-2022

Wema's NGN40 billion capital-raising plans, which were originally expected to be concluded by end-2021, have been postponed due to delays in obtaining regulatory approvals. The bank carried out the reverse share split to improve stock liquidity in 1Q22. The Board of Directors approved the rights issue in January 2022 and the bank is awaiting the final regulatory approval from the Nigerian Securities Exchange Commission (SEC) to begin the rights issue process, which is expected to commence in July /August 2022.

We expect the rights issue to take place by end-2022. The largest eight shareholders (which have a combined 75% shareholding) have committed to the NGN40 billion rights issue. We believe equity investors' appetite in the domestic market is also strong given low yields on sovereign securities. The Nigerian stock exchange (NSE) is one of the best-performing markets among emerging markets with the benchmark index up more than 20% in 1H22 on the back of low interest rates and a strong recovery in corporate earnings. Wema's stock price has increased by more than 300% so far this year, supported by the reverse share split, a strong improvement in profitability, and higher dividend distribution.

The NGN40 billion rights issue will significantly improve capitalisation and leverage ratios. Based on end-1Q22 figures, the rights issue would increase the tangible leverage ratio significantly to 7.6% (end-1Q22: 4.4%), broadly in line with small and mid-sized peers, and would increase the FCC ratio to over 23% (end-1Q22: 14%), significantly above peers.

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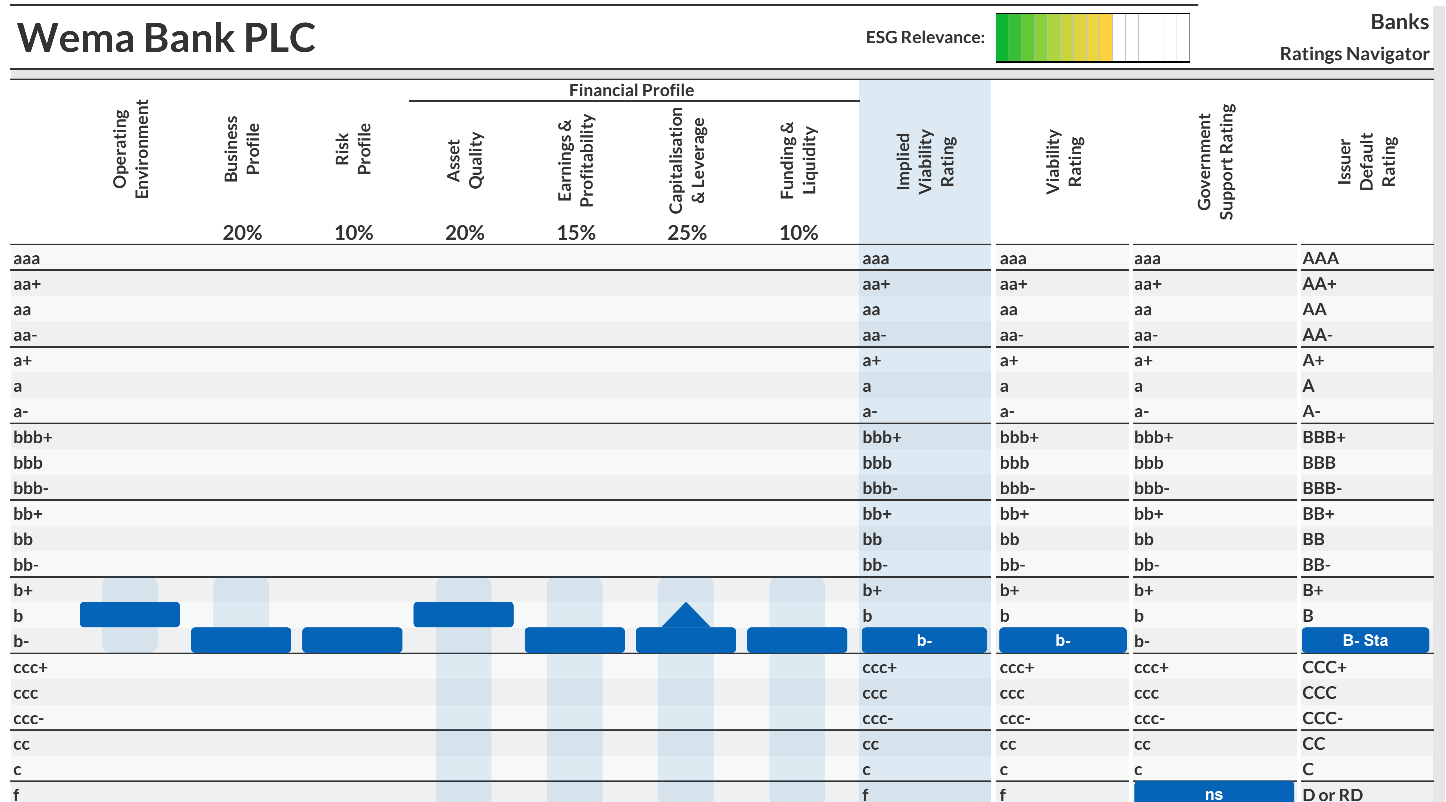
Ratings Navigator



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.

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Company Summary and Key Qualitative Factors

Operating Environment

Fitch believes operating conditions for banks will weaken compared to 2021 as global risks affect Nigeria. Inflation is expected to remain stubbornly high (17.7% in May 2022) due to rising energy and food prices, leading to weaker demand and posing downside risks to our real GDP growth forecasts of 3.1% and 3.3% in 2022 and 2023 (3.4% in 2021). While demand could fall, high inflation is not unusual in Nigeria, with inflation having averaged 14% over the past six years. Downwards pressure on Nigeria's growth will be counterbalanced by strong oil prices averaging USD105/barrel in 2022 and USD85/barrel in 2023, which should also underpin growth in non-oil sectors. Given a rigid exchange rate policy, we expect the Nigerian naira to depreciate against the US dollar by 5% and 4% in 2022 and 2023, respectively. Food and energy poverty raise the prospect of social and political unrest.

Fitch expects banks' asset quality metrics to perform well in 2022 as a result of high oil prices, with the banking sector's non-performing loans ratio remaining below 5%. Oil prices have historically been a key determinant of asset quality given the banking sector's outsized exposure to the oil and gas sector (approximately 25%–30% of loans). The lifting of most Covid-19-related support measures in 2021 did not lead to asset quality deterioration with the sector's non-performing loan ratio declining by 120bp to 4.8% at end-2021, its lowest level since 1Q15.

Probable rate hikes will support net interest margins (NIM) and naira devaluation, and greater market volatility will underpin non-interest revenues in 2022-2023. We expect credit costs to remain contained, with most banks aiming for a manageable increase in cost of risk in 2022. Regulatory risks are expected to remain high, with high cash reserve requirement debits continuing to constrain NIMs and operating profitability.

Nigerian banks are undergoing a Basel III parallel run but Fitch does not expect such requirements to be introduced until 2023. The majority of large banks will comfortably meet Basel III capital requirements but some smaller institutions are expected to have tight buffers. We expect higher earnings retention, capital raising and slower growth to boost capital buffers for banks that are not yet compliant. Funding and liquidity remains a key credit strength for banks with over 70% of deposits comprised of low-cost current and savings accounts (CASA). Eurobonds maturing in 2022 amount to about USD700 million and we expect banks to redeem given lower lending opportunities in foreign currency (FC) and much tighter global financial conditions. Large maturities will only come in 2025.

Business Profile

Small Franchise

Wema is one of the smaller Nigerian banks rated by Fitch, representing 1.9% of domestic banking system assets at end-2021. The bank serves mainly niche segments including smaller corporates, SMEs, and retail, which are typically down the credit curve. Wema is a well-managed institution following an ambitious strategy of becoming a fully digital bank. Wema is listed on the NSE; its largest shareholders are local private-equity investors.

Unique Digital Offering

Launched in 2017, ALAT, Wema's mobile banking platform provides a significant competitive advantage and mitigates Wema's lack of scale and franchise. The product has allowed Wema to grow its customer numbers rapidly (around 1.3 million currently). Customers are also able to obtain relatively small instant loans. We believe the lending book is fairly small and, according to the bank's management, ALAT will remain liability-driven. ALAT continues to garner brand recognition, particularly among the younger population. It was rolled out to SME customers in 2020.

The bank's management expects part of the proceeds from the NGN40 billion rights issue will be deployed towards investment in digitisation and systems in order to reach the target of at least 4% market share of deposits and 10% of industry transactions in the medium term. The bank is aiming for loan growth of 20% in 2022 (2021: 16%) driven by non-oil sectors – especially renewable energies, trade and agriculture.

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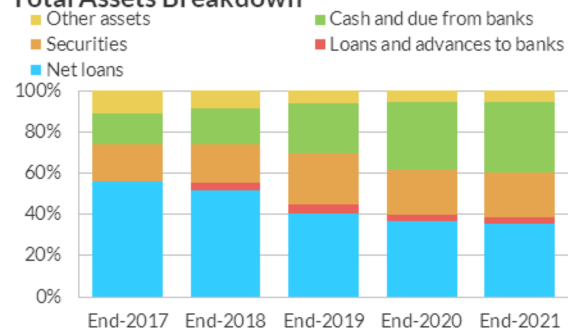
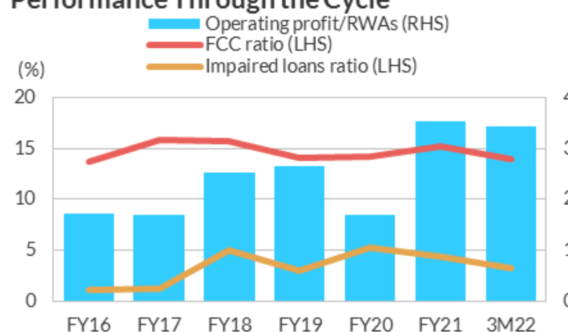


Source: Fitch Ratings, Fitch Solutions, Wema Bank PLC



Source: Fitch Ratings, Wema

Risk Profile

Past Strong Growth Presents Loan Seasoning Risks

Wema's small franchise constrains its ability to diversify lending. Loan concentrations remain high, both by sector and single-obligor. Its 20 largest loans formed 30% of gross loans, or 251% of Fitch Core Capital (FCC) at end-2021. Exposure to the vulnerable oil and gas sector (13% of gross loans at end-2021) is lower than for peers but equals a high 107% of FCC.

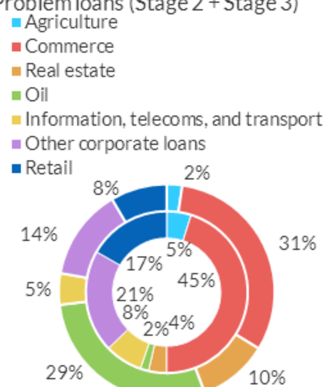
Wema's ambitious growth strategy presents key risks for the ratings, with balance sheet growth averaging 32% over 2018–2021, well above the sector average and above Nigeria's real GDP growth rate. Strong loan growth has been largely funded by expensive and less-stable corporate term deposits. As these loans season, this could lead to future asset quality weakness and, in turn, affect profitability and capital metrics.

However, loan quality metrics have been resilient since 2018, with the Stage 3 loans ratio at 3.3% at end-1Q22, below the sector average, and Stage 2 loans at only 3.8% of gross loans, well below domestic-rated peers. The bank's Stage 2 loans are concentrated in the oil and gas and trade sectors, making up more than 50% of total Stage 2 loans at end-2021. Retail loans were 8% of gross loans at end-2021 with a Stage 3 loans ratio of 10%. Given higher inflation and lower purchasing power, we expect a weakening in the retail segment's credit performance in 2022. The trade sector (18% of loans; Stage 3 loans ratio of 11% at end-2021) is also vulnerable to higher inflation and interest rates alongside FC shortages.

Wema's net loans represented only 36% of total assets at end-1Q22. The balance was in the form of cash and due from banks (32% of total assets at end-1Q22), reflecting cash reserve debits by the CBN. Securities (25% of total assets at end-9M21) are dominated by treasury bills and other Nigerian government bonds. Accordingly, very low-yielding assets – including 0% cash reserves and 0.5% special treasury bills – were a high 32% of total assets at end-1Q22, representing a significant opportunity cost for the bank's profitability, as for other Nigerian banks.

Underwriting by Standards at End-2021

Inner ring: Stage 3 loans
Outer ring: Problem loans (Stage 2 + Stage 3)



Note: The figures shown may not add to 100% due to rounding
Source: Fitch Ratings, Wema Plc

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Financial Profile

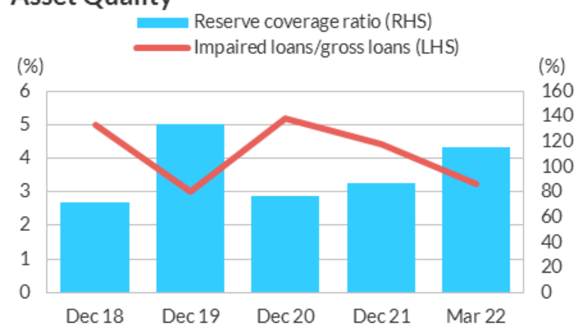
Asset Quality

Improving Asset Quality

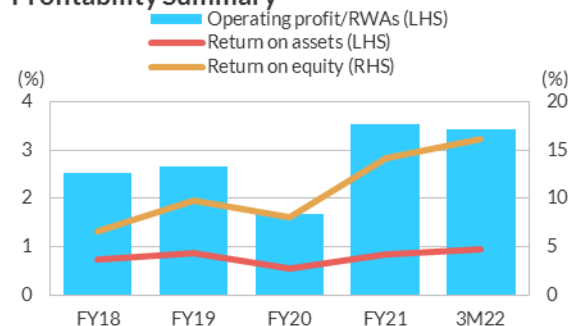
Wema's impaired loan (Stage 3 loans) ratio improved to 3.3% at end-1Q22 (end-2021: 4.4%), supported by improving credit performance and repayments. The bank's Stage 2 loans accounted for a manageable 3.8% of gross loans at end-1Q22 and the risk of downward migration of these loans is limited, in our view. Total loan loss allowance coverage was 115%, while specific loan loss allowance coverage of Stage 3 loans was 77% at end-1Q22, which is higher than domestic-rated peers. This is despite the presence of strong collateral through cash, mortgages, insurance and shares.

We had some concerns around Wema's large book of restructured loans, which accounted for a high 35% of gross loans at end-1H21. This was fairly high by domestic standards. However, credit performance has been better than we expected, with the bank experiencing very low levels of delinquencies. The bank's intervention loan book (12% of total loans) also shows very low levels of delinquencies, supported by tight credit standards and, to a lower extent, credit guarantee. We expect a slight reduction in the bank's Stage 3 loans ratio, supported by strong loan growth (20%, as targeted by its management) and favourable economic conditions.

We expect some risks coming from the bank's retail portfolio (8% of total loans at end-2021) and SME loans (6% of loans) given weaker purchasing power and higher interest rates, especially on the SME side. However, high real GDP growth and high levels of collateralisation mitigate these risks. We expect the bank's Stage 2 loans ratio to decrease by end-2023 from the reclassification of the largest oil exposure (approximately 3% of gross loans) whose performance has strongly improved on the back of higher oil prices.



Source: Fitch Ratings, Wema



Source: Fitch Ratings, Wema

Earnings and Profitability

Improving Profitability

Fitch's core profitability metric declined slightly to 3.4% in 1Q22 (2021: 3.5%) due to a strong increase in RWAs of 13% and despite a strong increase in total revenues (+62%). The bank's management is aiming for a profit before tax of NGN15 billion in 2022 (2020: NGN12.1 billion), which we view as achievable given the strong expected balance-sheet growth that should underpin growth in fees and commissions. Higher rates should support profitability as more than 70% of assets reprice within 12 months. However, the bank's gearing to higher rates is weaker than domestic peers given a higher proportion of term deposits (49% of total at end-2021). The bank's cost of funding went up by 210bp yoy in 1Q22 as interest rates increased.

Through-the-cycle profitability metrics are hampered by high LICs which on average consumed 40% of the bank's pre-impairment operating profits between 2018 and 2021 but declined to a low 7% in 1Q22. We expect LICs to remain well contained in 2022 given existing high provisioning buffers and stable credit performance. High operating expenses due to investments in digitalisation and regulatory costs continue to affect profitability, as reflected in a high cost-to-income ratio of 77% in 1Q22. Operating expenses grew 22% in 2021 and we expect the same growth in 2022, reflecting higher staff costs, investment in systems and regulatory costs.

Capital and Leverage

Rights Issue Will Improve Leverage

Wema's FCC/RWAs ratio (14% at end-1Q22) is adequate, although at the lower end of the sector. The ratio is significantly influenced by a low risk-weight density (31% at end-1Q22), partly attributable to cash collateral coverage of the loan book and lower risk-weights applied to certain intervention and SME loans. The capital adequacy ratio of 13.4% at end-1Q22 (excluding unaudited interim profits) is comfortably above the 10% minimum requirement. The

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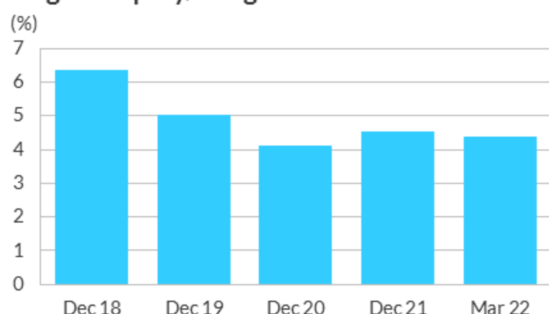
bank's Tier 1 ratio (deducting deferred tax assets) was 10.1% at end-1Q22, 160bp over the minimum regulatory requirement under Basel III. We expect the bank's regulatory capital buffers to improve significantly with the rights issue.

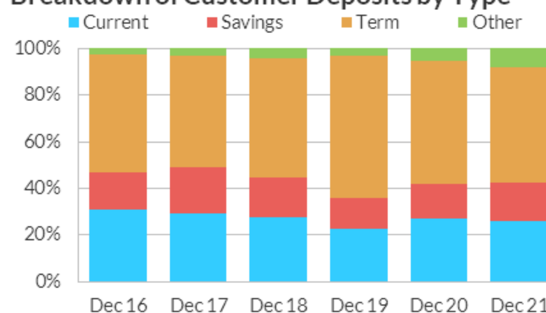
Currently weak capitalisation and leverage are most visible in the tangible leverage ratio (4.4% at end-1Q22) which is significantly lower than peers. The ratio has been reducing as a result of the bank's exceptionally high growth. Pre-impairment operating profit has averaged 3.3% of average gross loans over the past four years, providing a reasonable buffer to absorb LICs without deteriorating capital. We estimate the rights issue will provide an approximate 320bp uplift to the tangible leverage ratio, which should be more in line with domestic rated peers.

Tangible Equity/Tangible Assets



Source: Fitch Ratings, banks

Breakdown of Customer Deposits by Type



Source: Fitch Ratings, Wema Plc

Funding and Liquidity

Weak Funding Structure; Good Liquidity

Wema's funding profile is dominated by customer deposits (92% of total funding at end-1Q22). The deposit base has structural weaknesses due to Wema's high reliance on term deposits (49% of customer deposits at end-2021), which are mainly sourced from pension funds as well as asset managers and are price sensitive especially to yields in the fixed-income market. The deposit base is concentrated with the 20 largest deposits representing 47% of total customer deposits at end-2021.

Wema's low loans/customer deposits ratio (45% at end-1Q22) reflects a liquid balance sheet. The bank holds an ample stock of liquid assets (including cash and restricted deposits at CBN, and net interbank and unpledged government securities) representing 49% of total assets and covering 61% of customer deposits at end-1Q22. FC liabilities represented only 9% of total liabilities at end-2021, with FC liquid assets (cash in Nigeria and placements with Nigerian banks) almost fully covering FC liabilities. The bank is looking at increasing the share of FC liabilities to reduce its cost of funding and circumvent high cash reserve requirements that weigh on profitability. The regulatory liquidity ratio (35% at end-1Q22) breaches the 30% minimum requirement on occasion as a result of high cash reserve debits.

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Financials

Financial Statements

Summary Financials and Key Ratios

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(NGNbn)	(NGNbn)	(NGNbn)	(GNbn)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	97	40.0	30.9	26.1	27.0
Net fees and commissions	33	13.4	8.5	8.1	6.6
Other operating income	12	5.1	7.0	15.9	7.3
Total operating income	142	58.5	46.4	50.0	40.9
Operating costs	107	44.2	36.1	37.3	32.6
Pre-impairment operating profit	35	14.3	10.3	12.7	8.3
Loan and other impairment charges	5	2.1	5.6	6.1	3.5
Operating profit	30	12.2	4.7	6.6	4.8
Other non-operating items (net)	0	0.2	1.3	0.2	0.0
Tax	8	3.5	1.4	1.6	1.5
Net income	22	8.9	4.6	5.2	3.3
Other comprehensive income	9	3.6	0.6	0.5	0.0
Fitch comprehensive income	30	12.5	5.2	5.7	3.3
.					
Summary balance sheet					
Assets					
Gross loans	1,055	435.6	375.0	301.4	261.6
- Of which impaired	47	19.3	19.5	9.1	13.1
Loan loss allowances	40	16.7	15.0	12.1	9.4
Net loans	1,014	418.9	360.1	289.2	252.2
Interbank	84	34.8	28.9	30.6	18.1
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	624	257.8	211.3	177.1	92.2
Total earning assets	1,723	711.5	600.2	496.9	362.6
Cash and due from banks	967	399.5	326.3	173.4	82.7
Other assets	156	64.6	53.0	45.5	43.5
Total assets	2,846	1,175.5	979.5	715.9	488.8
.					
Liabilities					
Customer deposits	2,246	927.5	804.9	577.3	369.2
Interbank and other short-term funding	99	40.7	n.a.	3.6	0.0
Other long-term funding	176	72.7	73.5	48.8	45.4
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding and derivatives	2,520	1,040.9	878.4	629.7	414.6
Other liabilities	156	64.4	42.0	31.0	23.3
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	170	70.1	59.1	55.2	50.9
Total liabilities and equity	2,846	1,175.5	979.5	715.9	488.8
Exchange rate		USD1 = NGN412.99	USD1 = NGN381	USD1 = NGN307	USD1 = NGN306.31

Source: Fitch Ratings, Fitch Solutions, Wema Plc

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Key Ratios

Summary Financials and Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
.				
Profitability				
Operating profit/risk-weighted assets	3.5	1.7	2.7	2.5
Net interest income/average earning assets	6.2	5.9	5.9	8.3
Non-interest expense/gross revenue	75.6	77.8	74.6	79.7
Net income/average equity	14.2	8.1	9.9	6.6
.				
Asset quality				
Impaired loans ratio	4.4	5.2	3.0	5.0
Growth in gross loans	16.1	24.5	15.2	18.9
Loan loss allowances/impaired loans	86.7	76.7	133.4	71.6
Loan impairment charges/average gross loans	0.6	1.3	1.4	1.3
.				
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	15.2	14.2	14.1	15.7
Tangible common equity/tangible assets	4.5	4.1	5.0	6.4
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	4.9	11.5	-8.7	12.5
.				
Funding and liquidity				
Gross loans/customer deposits	47.0	46.6	52.2	70.9
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	89.1	91.6	91.7	89.0
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Wema Plc

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Support Assessment

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

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

Fitch considers the authorities' propensity to support the banking system to be high and there is a record of recent support across the sector. However, government support for commercial banks cannot be relied upon given Nigeria' weak ability to support, particularly in foreign currency. The Government Support Ratings of all commercial banks are at 'no support' (ns), reflecting our view that senior creditors cannot rely on receiving full and timely extraordinary support from the authorities should a bank become non-viable.

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Environmental, Social and Governance Considerations

FitchRatings **Wema Bank PLC**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Wema Bank PLC has 5 ESG potential rating drivers

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

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

Environmental (E)

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

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	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)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
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

CREDIT-RELEVANT ESG SCALE

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

Score	Description
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.

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

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