Banco BS2 S.A.

Key Rating Drivers

Rating Watch Negative Assigned: Banco BS2 S.A.'s Rating Watch Negative (RWN) reflects a significant reduction in the bank's capitalization in 2020, which is now below that of its peers despite recurring capital injections. Fitch Ratings expects that BS2's capitalization will likely remain under pressure through 2021 given the bank's growth perspectives and limited results, which could pressure the bank's risk appetite assessment.

Fitch could downgrade BS2's ratings if it is unable to implement its plan to revert the capitalization metrics' negative trend over the next six months. Fitch expects to review and resolve the RWN status within the next six months, and revise ratings following additional information regarding potential capital adequacy metrics, as these have continued to tighten.

Ratings Driven by Viability Rating: BS2's ratings are highly influenced by its tight capitalization, as well as its company profile, earnings and profitability. These metrics primarily reflect challenges imposed by the development of new business lines, especially on the digital banking unit, which has pressured the bank's profitability and capital generation since 2019. BS2's strategy is to continue targeting the growth of its acquiring operations. The bank's relatively low capitalization metrics also represent a risk to implementing its long-term strategy.

Digital Hub Strategy: BS2's strategy is based on a service-oriented digital business hub, providing both its own and third-party products to its customer base which includes individuals and SMEs. The bank has been developing its platform over the past two years by releasing new products and features, which has required large investments. The bank continues to expand in other business verticals simultaneously — notably its acquiring operations — which reflects sound volume and revenue growth. BS2 also operates with judicial securities issued by Brazil's federal and state governments (Precatorios), SME lending and foreign exchange (FX) operations.

Capitalization Drop Following Growth: BS2's 2020 capitalization metrics decreased significantly given reported losses combined with strong growth. Over the last two years, shareholders injected BRL247 million through the banks' holding company, in addition to approximately BRL100 million in bonds that qualifies as Tier 2 capital. However, BS2's common equity Tier 1 (CET1) ratio declined to a weak 8.5% at YE 2020, from 10.6% at YE 2019.

Although Fitch recognizes the commitment of its shareholders to support growth, the bank's reported capitalization metrics, especially CET1, stood below the average of other midsize banks, providing the bank less cushion for unexpected losses and lower capacity to implement its business model over the medium to long term.

Losses in 2020: BS2 reported losses in 2020, affected by its low performance during the first half and reflecting high levels of investments. BS2's operating profit/risk weighted assets (RWAs) ratio deteriorated to negative 1.6% at YE 2020, from negative 0.7% at YE 2019 and a four-year average of 0.5%. Fitch's negative outlook on the profitability factor reflects market conditions and coronavirus pandemic-related economic uncertainties. Fitch expects BS2's results to remain pressured in 2021.

Adequate Asset Quality; Concentrated Portfolio: BS2 continues to report better asset quality ratios than peers. Loans classified as 'D–H' reached 5% at YE 2020, from 5.9% at YE 2019. The bank reported a 19.6% loan contraction in 2020, reflecting the strong decline of Precatorios. However, the SME portfolio continues to report relatively high concentrations on top clients — the 20-largest groups account for 47.1% of the loan portfolio as of YE 2020. Fitch believes the SME portfolio will continue to be pressured by operating environment conditions, despite being relatively stable during 2020.

Ratings

Foreign Currency	
Long-Term IDR	B+
Short-Term IDR	B
Local Currency	
Long-Term IDR	B+
Short-Term IDR	B
Viability Rating	b+
Support Rating	5
Support Rating Floor	NF
National	
National Long-Term Rating	BBB+(bra)
National Short-Term Rating	F2(bra)
Sovereign Risk	
Long-Term Foreign-Currency IDR	BB–
Long-Term Local-Currency IDR	BB–
Country Ceiling	BB

Outlooks and Watches

Long-Term Foreign-Currency IDR	RWN
Long-Term Local-Currency IDR	RWN
Viability Rating	RWN
National Long-Term Rating	RWN
National ShortTerm Rating	RWN
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (February 2020)

National Scale Rating Criteria (December 2020)

Related Research

Fitch Places Banco BS2 S.A's IDRs and National Ratings on Watch Negative (April 2021)

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Rating Sensitivities

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

- A sustained reduction in the bank's capitalization, with a CET 1 ratio below 10% over the next six months;
- A substantial deterioration of the bank's asset quality stemming from a higher risk appetite;
- Operational losses in 2021.

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

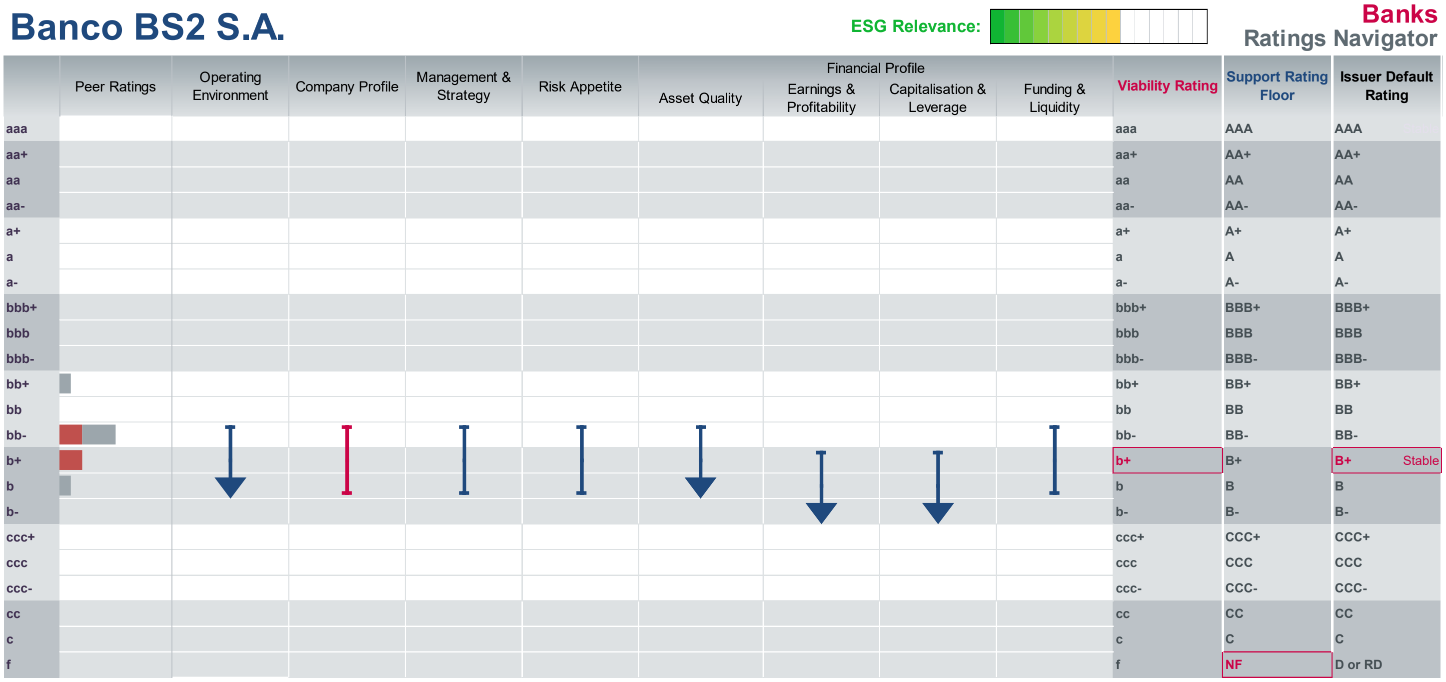
- The RWN could be removed and the Outlook revised to Stable if the bank is able to improve its capitalization metrics (e.g. a CET 1 ratio above 10%) coupled with the maintenance of improvement in operating profitability without deterioration in asset quality metrics;
- An upgrade is unlikely in the near term.

Issuer Ratings (Including Main Issuing Entities)

Rating Level	Rating
Long-Term Foreign-Currency IDR	B+
Short-Term Foreign-Currency IDR	B
Long-Term Local-Currency IDR	B+
Short-Term Local-Currency IDR	B
Viability Rating	b+
Support Rating	5
Support Rating Floor	NF
National Long-Term Rating	BBB+(bra)
National Short-Term Rating	F2(bra)
Outlook/Watch	Negative

IDR – Issuer Default Rating.
Source: Fitch Ratings.

Ratings Navigator



Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧	Positive	⇩	Negative
⇳	Evolving	▫	Stable

Company Profile

Franchise and Business Model

Headquartered in Belo Horizonte, BS2 is a midsize bank that opened in 1992 under the name Banco Bonsucesso. Since 2016, BS2 has focused on repositioning its franchise after the sale of the payroll discount business to Banco Santander Brasil, S.A., its primary source of business through 2015. BS2's current strategy is to become a full-service bank, with FX operations, acquiring products and its own digital bank platform.

BS2 shifted its strategy to become a digital bank in both retail and SME segments, similar to peers, in early 2019. However, BS2 has been differentiating this segment by focusing on client services. The bank has been gradually increasing its loan products in its SME segment, primarily focusing on short-term receivables, of which it has a strong volume with Adiq Solucoes de Pagamento S.A. BS2 believes that an open banking strategy is the best long-term solution.

BS2 has been building a digital hub for both retail and corporate clients, which allows institutions to provide BS2's client base with products not offered by the bank.

BS2's primary business revenue contributors are its acquiring segment, which has the strongest growth and includes fees and receivables, and Precatorios, which are state-owned securities resulting from governmental litigation. BS2 acquires these securities with large haircuts, approximately 70% of face value, and receives the full amount at maturity. However, this segment is expected to decline from 2021 and beyond, given higher competition. The bank also has an SME Portfolio — loans to small companies, which remains concentrated. There are no plans to boost this portfolio in the near term.

BS2 was able to sustain its transaction volumes and revenues at 2019 levels despite a challenging year. The bank ended its correspondents-related FX offerings, as they were severely affected by the pandemic. The bank continues to provide FX products to its international SME and retail accounts.

Organizational Structure

The bank is controlled by the Pentagna Guimarães family, which manages the day-to-day operations of the bank, primarily rendering services to nonfinancial companies. BS2's primary subsidiary is Adiq, which began operations in 2017. Adiq has a partnership with Adyen N.V., a global payment company that paved the way for Adiq's to open its acquiring operations segment. Adyen, headquartered in the Netherlands, is a global provider of online, mobile and point-of-sale payment applications, including global acquiring and processing services. The structure is a standard bank model and does not affect the ratings.

Management and Strategy

Management Quality and Corporate Governance

Fitch views BS2's leadership as good, consisting of professionals with extensive market experience. BS2's organizational structure features six members, with four members from the Pentagna family. Zito Murata was promoted to CFO in 2020, and Marcos Magalhaes replaced Gabriel Pentagna Guimares as CEO. There have been no other leadership changes within the past year.

The bank's corporate governance is typical of small and medium-sized closed capital banks that have a family corporate structure and no independent members on its board of directors. The bank has established several committees and policies to improve corporate governance structure.

Strategic Objectives and Execution

BS2 is transitioning its business model to be more digitally oriented. The bank aims to increase the cross sell of its other business verticals, such as FX and acquiring products — the latter being the most profitable vertical currently, with the most favorable 2021 prospects.

However, given the sound growth of Adiq's operations, BS2's balance sheet has grown at a pace that challenges sustainable growth in other products and segments. Given this situation, the family has consistently injected fresh capital — BRL185 million in 2019 and BRL50 million in 2020.

Fitch believes the bank has a higher risk appetite than in prior years, relative to peers without relevant injections to sustain capitalization metrics, given the acquiring segment's growth, even considering that acquiring receivables have good overall performance with low delinquency or fraud. The bank has established several partnerships with companies to settle white label banks and to increase its exposure of loans to SMEs through short-term receivables.

Despite ongoing investments in its digital segment, BS2 expects to sustain positive results in 2021, mainly derived from the expansion of acquiring operations and maturation of the digital banking segment. Fitch also expects additional nonrecurring results due to the sale of noncore assets.

The bank was heavily investing in its digital strategy at the onset of the pandemic, and execution of its business strategy was directly affected. In addition, part of its FX operations were affected by lockdown restrictions, while its Precatorios operations had payments postponed. However, results recovered during the second half of the year. The bank posted BRL44 million of losses during 1H20, of which BRL91.5 million where operational losses, and second-half results were positive BRL14 million, of which BRL18.8 million were positive operational results. This was the first time the bank reported losses.

BS2 has been able to meet recent business goals, but it is still uncertain how this will affect Fitch's overall assessment. Fitch believes business strategy execution may be tested as the bank will likely face increasing competition as it expands its fee-service platforms.

Risk Appetite

Underwriting Standards

BS2's credit risk is concentrated in its loan portfolio of short-term receivables (BRL 3.48 billion), SMEs (BRL 410.4 million) and Precatorios (BRL 232 million). The latter are government-funded securities primarily from the State of Minas Gerais. BS2 has expertise on acquiring such securities with large devaluations, and holds the securities to maturity to receive the full amount.

The assets related with its acquiring company, Adiq, are linked with credit and debit card operations and have very low risk. This is because the risk lies with the issuing banks, which are primarily large banks. There are a few legacy problematic cases related to its prior business strategy, but Fitch will continue to monitor its portfolio concentration. The bank aggregates guarantees in all operations to reduce credit risk. BS2 has higher levels of concentration than peers, and the 10- and 20-largest exposures corresponded to 55.2% and 80.3% of the loan portfolio excluding receivables, respectively, or 8.7% and 12.5% on a consolidated base.

The bank's complementary activities are small, and Fitch believes they do not alter the bank's risk profile. BS2 has not entered into riskier deals to pay fixed costs. Management is careful to establish profit targets, and manages goals with an adequate level of risk. However, the bank is strongly affected by the local operating environment and competition with similar banks.

Risk Controls

Fitch believes the bank's strategy to continue increasing its credit activities will require stronger and more effective risk-management tools. Due to its relatively large FX operations, the bank has strong policies against money laundering to avoid fines or events that could potentially harm its franchise.

BS2's primary source of market risk is related to its FX operations, through exchange rates. Market risk represented around 7% of total RWAs at YE 2020.

Market risk is currently low, as the bank does not depend on the treasury for revenue. Fitch believes BS2's risk appetite has been adequate. The main risk attributes include providing pricing to the commercial area, managing occasional asset and liability mismatches and ensuring that the bank's liquidity policy is adequately followed. The treasury adheres to "value at risk" methodology, with a 99% confidence level interval and a low risk limit of around BRL14 million. An increase in the bank's risk appetite would affect ratings.

Growth

BS2 reported strong growth of assets and transaction volumes in 2020, similar to prior years, with 30% asset growth and higher volumes in all major business verticals. The reduction of its SME and Precatorio loan portfolios during 2020 — 19.6% contraction — was compensated by the strong growth of Adiq's short-term receivables.

Fitch believes that BS2's current growth pace, especially with Adiq, has prevented the bank from developing other segments and products. It has required consistent capital injections from shareholders, as its current capital base is small with limited internal capital, and is negatively affected by large investments toward digital platform development.

Financial Profile

Asset Quality

BS2's total loan exposure totaled BRL642 million at YE 2020, divided between SMEs and Precatorios. The exposure also reflects the development of Adiq. As a result, the bank started offering the anticipation of receivables to clients, representing BRL3.47 billion, or 84.5% of total consolidated loan exposure, at YE 2020.

BS2's impaired 'D-H' loans ratio stood at 5% at YE 2020, from 5.9% at YE 2019. Consolidated 60- and 90-days delinquency simultaneously fell to the lowest historical level — 0.12% for both.

The SME portfolio continues to be the bank's riskiest portfolio. Its challenging performance relates to the deteriorated operating environment, which had a direct effect on the majority of the bank's large borrowers. However, the bank has been working to reduce concentration or decrease vulnerability to cyclical asset performance fluctuations, which was a negative factor in Fitch's asset quality assessment. The bank renegotiated approximately BRL200 million of its portfolio in 2020. The top-10 renegotiations totaled BRL110 million.

Earnings and Profitability

BS2's profitability during 2020 was directly affected by the pandemic's negative economic effects. Despite positive second-half results, BS2 reported BRL27.9 million in losses, and operating results of negative BRL72.3 million, which led to an operating income/RWA ratio of negative 1.6% at YE 2020, from negative 0.7% at YE 2019, producing a four-year average of 0.5%. BS2 losses were not directly affected by higher loan impairment charges (LICs) but related to higher costs necessary to expand its digital platform. During 2020, the bank reported only BRL7.2 million on LICs.

Capitalization and Leverage

BS2's CET 1 ratio was 8.5% at YE 2020, from 10.6% at YE 2019, a level considered weak and significantly below peers, which limits the bank's ability to absorb losses. However, given the short-term profile of Adiq's receivables, the bank has sufficient capacity to quickly adjust origination in order to sustain its capitalization. The total regulatory capital ratio was relatively stable in the same period — capitalization was 11.40% and regulatory capital was 11.56%. BS2 received BRL247 million in fresh capital over the prior two years, which accounts for almost two-thirds of the bank's capital base as of YE 2020. The bank also issued BRL50 million in Tier 2 bonds with shareholders, maturing in the next five years.

Brazilian banks need to comply with higher risk weighted requirements of receivables' transactions to calculate capitalization metrics. Management expects this is likely to be adjusted by the Central Bank in 2021.

Funding and Liquidity

BS2's funding base remained relatively stable, composed primarily of term deposits that accounted for more than 80% of total funding at YE 2020. Other relevant lines are sight deposits (7.3%), interbank (3.9%), LCIs (3%) and subordinated bonds (3.5%). The strong growth of term and sight deposits reflects strong digital growth.

Concentration remains high, and the 20-largest distributors and investors accounted for approximately 50% of total funding as of YE 2020, from above 60% at YE 2019. Those are partially mitigated by the size of investors in each distributor, which mitigates concentration risks. BS2 has recently established partnerships with brokerage houses, and BS2's own brokerage house became the third-largest channel, its digital platform, representing 7.7%.

Liquidity remains sound. Liquid assets totaled BRL1.41 billion at YE 2020, which was sufficient to cover all short-term liabilities — 83% of BRL1.69 billion matures in less than one year. Assets and liabilities are well-managed, given the bank's short-term SME loan profile, and also due to the bank's ability to increase the average tenor of its funding instruments, based on agreements with local brokers with ample access to retail investors, which invest up to the limit of BRL250,000 covered by the local FDIC — Fundo Garantidor de Créditos. Fitch notes that liquidity may decline as the bank continues its expansion through credit activities, including Precatorios receivables, but will likely remain consistent.

Summary Financials and Key Ratios

		Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
	Year End	Year End	Year End	Year End	Year End
	USD Mil.	BRL Mil.	BRL Mil.	BRL Mil.	BRL Mil.
	Audited – Unqualified	Audited – Unqualified	Audited – Unqualified	Audited – Unqualified (Emphasis of Matter)	Audited – Unqualified (Emphasis of Matter)
Summary Income Statement					
Net Interest and Dividend Income	30.4	157.2	204.9	75.6	161.0
Net Fees and Commissions	48.7	248.1	125.2	58.1	25.5
Other Operating Income	0.7	4.0	29.4	149.0	35.5
Total Operating Income	79.0	409.3	359.5	282.7	222.0
Operating Costs	92.1	476.6	392.7	243.4	172.9
Pre-Impairment Operating Profit	(13.0)	(67.3)	(33.2)	39.3	49.1
Loan and Other Impairment Charges	1.0	5.0	(7.7)	(2.8)	(6.2)
Operating Profit	(14.0)	(72.3)	(25.5)	42.1	55.3
Other Non-Operating Items (Net)	2.4	12.4	11.0	0.8	1.7
Tax	(6.2)	(32.0)	(26.0)	10.6	8.9
Net Income	(5.4)	(27.9)	11.5	32.3	48.1
Other Comprehensive Income	0.0	0.0	N.A.	N.A.	N.A.
Fitch Comprehensive Income	(5.4)	(27.9)	11.5	32.3	48.1
Summary Balance Sheet					
Assets					
Gross Loans	124.5	642.4	798.9	723.0	894.5
- of which Impaired	6.2	32.3	47.0	25.1	30.9
Loan Loss Allowances	2.7	13.9	22.3	17.4	23.9
Net Loan	121.5	628.5	776.6	705.6	870.6
Interbank	166.5	861.5	7.1	3,018.1	7.9
Derivatives	N.A.	N.A.	143.9	133.8	102.9
Other Securities and Earning Assets	249.0	1,289.2	1,582.0	1,666.2	917.0
Total Earning Assets	537.2	2,779.2	2,509.6	5,523.7	1,898.4
Cash and Due From Banks	20.7	107.3	81.8	61.8	58.7
Other Assets	1,707.0	8,829.9	6,402.5	305.4	1,581.3
Total Assets	2,264.7	11,716.4	8,993.9	5,890.9	3,538.4
Liabilities					
Customer Deposits	780.2	4,036.3	2,444.6	1,862.2	1,423.2
Interbank and Other Short-Term Funding	33.7	174.2	267.7	173.9	197.1
Other Long-Term Funding	56.9	294.4	298.3	318.0	244.2
Trading Liabilities and Derivatives	0.0	0.0	0.1	N.A.	N.A.
Total Funding	870.8	4,504.9	3,010.7	2,354.1	1,864.5
Other Liabilities	1,291.7	6,683.1	5,473.0	3,225.7	1,439.5
Preference Shares and Hybrid Capital	N.A.	N.A.	N.A.	N.A.	N.A.
Total Equity	102.1	528.4	510.2	311.1	234.4
Total Liabilities and Equity	2,264.7	11,716.4	8,993.9	5,890.9	3,538.4
Exchange Rate		USD1 = BRL5.1734	USD1 = BRL4.0301	USD1 = BRL3.8742	USD1 = BRL3.3074

N.A. – Not available.
Source: Fitch Ratings, Fitch Solutions, Banco BS2 S.A.

Summary Financials and Key Ratios

	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2017
Ratios (Annualized as Appropriate)				
Profitability				
Operating Profit/Risk-Weighted Assets	(1.6)	(0.7)	1.7	2.8
Net Interest Income/Average Earning Assets	3.3	6.5	2.5	N.A.
Non-Interest Expense/Gross Revenue	116.6	109.3	86.1	85.8
Net Income/Average Equity	(5.6)	2.7	11.3	N.A.
Asset Quality				
Impaired Loans Ratio	5.0	5.9	3.5	3.5
Growth in Gross Loans	(19.6)	10.5	(19.2)	N.A.
Loan Loss Allowances/Impaired Loans	43.0	47.5	69.3	77.4
Loan Impairment Charges/Average Gross Loans	0.7	(0.9)	(0.3)	N.A.
Capitalization				
Common Equity Tier 1 Ratio	8.5	10.6	9.6	9.5
Fully Loaded Common Equity Tier 1 Ratio	N.A.	N.A.	N.A.	N.A.
Fitch Core Capital Ratio	N.A.	N.A.	10.2	10.2
Tangible Common Equity/Tangible Assets	3.3	4.4	4.3	5.8
Basel Leverage Ratio	N.A.	N.A.	N.A.	N.A.
Net Impaired Loans/Common Equity Tier 1	4.8	6.6	3.3	3.7
Net Impaired Loans/Fitch Core Capital	N.A.	N.A.	3.1	3.4
Funding and Liquidity				
Loans/Customer Deposits	15.9	32.7	38.8	62.9
Liquidity Coverage Ratio	N.A.	N.A.	N.A.	N.A.
Customer Deposits/Funding	89.6	81.2	79.1	76.3
Net Stable Funding Ratio	N.A.	N.A.	N.A.	N.A.

N.A. – Not available.
Source: Fitch Ratings, Fitch Solutions, Banco BS2 S.A.

Sovereign Support Assessment

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			BB- or B+
Actual country D-SIB SRF			B+
Support Rating Floor:			**NF**
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy		✓	
Size of potential problem			✓
Structure of banking system		✓	
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)		✓	
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in		✓	
Track record of banking sector support		✓	
Government statements of support		✓	
Sovereign propensity to support bank			
Systemic importance			✓
Liability structure of bank			✓
Ownership		✓	
Specifics of bank failure		✓	
Policy banks			
Policy role			
Funding guarantees and legal status			
Government ownership			

Environmental, Social and Governance Considerations

FitchRatings **Banco BS2 S.A.** Banks Ratings Navigator

Credit-Relevant ESG Derivation

Banco BS2 S.A. has 5 ESG potential rating drivers

- Banco BS2 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 ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.