Nykredit Realkredit A/S

Ratings

Foreign Currency

Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

Outlooks

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

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Coronavirus Rating Impact: Western European Banks (April 2020)

Global Economic Outlook: Crisis Update Late April 2020 – Coronavirus Recession Unparalleled (April 2020)

Coronavirus Leads to Rating Actions on Nine Nordic Banking Groups (April 2020)

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Key Rating Drivers

Low Credit Risk: Nykredit Realkredit A/S's (Nykredit) ratings reflect its conservative risk appetite, demonstrated in healthy and resilient through-the-cycle asset quality and robust capitalisation. Nykredit's good profitability benefits from its leading Danish mortgage lending franchise and stable strategy. We also take into consideration Nykredit's ample liquidity and wholesale funding, which is reliant on a large, deep and liquid domestic covered bond market.

Asset Quality Is Under Pressure: We expect asset quality to weaken in 2020 in light of unprecedented constraints for business activity from the coronavirus crisis and a likely increase in unemployment. The bank has limited direct exposure to industries that are vulnerable to the coronavirus outbreak. Its loan book is geographically concentrated in one country and so strongly linked to the performance of the Danish economy.

Robust Capitalisation: Nykredit's capitalisation is underpinned by its low-risk business model, limited exposure to high-risk assets and solid capital surplus over regulatory minimums, giving the bank sufficient cushion to absorb losses and inflation of risk-weighted assets (RWAs). Nykredit's risk-weighted capital ratios benefit from low risk weights on mortgage loans and are higher than peers. Its regulatory leverage ratio of 4.4% at end-2019 was adequate.

Profitability Headwinds: Nykredit's results will face headwinds in 2020, due to slower business growth, further margin pressure and higher loan impairment charges. Pre-impairment operating profit has only moderate loss absorption capacity due to its thin margins and less diversified revenue than universal banks.

Refinancing Risk Is Well Managed: We do not expect immediate pressure on the bank's funding profile, given Nykredit's limited use of short-term debt and sufficient liquidity. Nykredit relies extensively on wholesale funding because mortgage lending is by law entirely funded by covered bonds in Denmark. Nykredit's access to covered bond markets should remain uninterrupted due to strong domestic demand for Danish covered bonds. However, maintaining a significant liquidity portfolio to mitigate refinancing risks is a key rating factor.

Conservative Risk Appetite: Nykredit's low risk appetite and business model reflects prudent underwriting standards, robust risk controls, reasonable loan growth and low market risk exposure. Credit risk exposure is dominated by mortgage lending, the tight underwriting of which is underpinned by conservative Danish covered bond and mortgage lending legislation.

Rating Sensitivities

Negative Outlook on Economic Stress: The risks to the bank's operating environment, asset quality and profitability are skewed to the downside from the economic fallout from the coronavirus outbreak. The key triggers that could lead to a downgrade are a material deterioration in asset quality and a sustained reduction of operating profitability.

Funding Access: Pressure on the ratings would arise from an adverse change in investor sentiment materially affecting Nykredit's ability to access competitively priced funding or from weaker liquidity management. An increased reliance on international debt investors who may prove less stable during financial stress, or increasing risk appetite – particularly at its subsidiary Nykredit Bank A/S – would also put pressure on ratings.

Upgrade Unlikely: An upgrade is unlikely given the group's already high ratings and limited product breadth.

Subsidiary's Issuer Ratings

Rating Level	Nykredit Bank A/S
Long-Term Foreign-Currency IDR	A
Short-Term Foreign-Currency IDR	F1
Support Rating	1
Long-term deposits and long-term senior unsecured debt	A+
Short-term deposits and short-term senior unsecured debt	F1
Outlook	Negative

Source: Fitch Ratings

Nykredit Bank's Issuer Default Ratings (IDRs) are aligned with Nykredit's. This reflects the subsidiary's core position within the Nykredit group, including full ownership, strong track record of support, and high reputational risk from a default of the subsidiary. We have not assigned a Viability Rating (VR) to the subsidiary because it does not have a meaningful standalone franchise that could exist without the ownership of the parent, due to its close integration into the larger group (including various shared services).

Nykredit Bank's long-term deposit and senior debt ratings are one notch above the bank's Long-Term IDR because deposits benefit from the same protection as Nykredit's preferred senior creditors coming from the group's resolution debt and equity buffers.

Debt Rating Classes

Rating Level	Rating
Long-term and short-term senior preferred debt	A+/F1
Senior non-preferred debt	A
Subordinated debt	BBB+
Tier 2 contingent capital notes	BBB
Additional Tier 1 notes	BBB-

Source: Fitch Ratings

Nykredit's long-term senior preferred debt rating is one notch above the bank's Long-Term IDR, to reflect the protection that could accrue to senior preferred debt from the bank's junior resolution debt and equity buffers. The buffer of qualifying junior debt (QJD) and senior non-preferred debt (SNP) debt was almost 12% of RWAs at end-2019. We believe this buffer should be sufficient to recapitalise the bank in a resolution without causing losses to senior preferred creditors.

Nykredit has a single point of entry resolution strategy, which also captures Nykredit Bank, hence the uplift also applies to its subsidiary. Nykredit plans to issue further SNP debt to meet its minimum requirements for eligible liabilities (MREL), which should result in a further increase of the buffers.

Subordinated debt and other hybrid capital issued by Nykredit are all notched down from its VR. We rate subordinated debt two notches below Nykredit's VR to reflect the higher-than-average loss severity of this type of debt.

Tier 2 contingent capital instruments and additional Tier 1 securities are rated three and four notches below Nykredit's VR, respectively. This is to reflect the higher-than average loss severity risk of these securities (two notches) as well as the high risk of non-performance (an additional one notch and two notches respectively).

Ratings Navigator

Significant Changes

Coronavirus Outbreak Drags on Danish Operating Environment

We expect a significant deterioration in eurozone GDP growth from the coronavirus outbreak and this is highly likely to be the case in Denmark as well. However, the uncertainties surrounding growth forecasts are extremely high, and an even larger decline in output in 2020 and a weaker recovery in 2021 are possible.

Headwinds for the Danish banks could be mitigated by the government's comprehensive relief package. The main employment-related measures include subsidies for 75% of employee salaries (90% for hourly workers) to avoid layoffs, or 75% compensation for the lost revenues of the self-employed. The government will also cover sick leave benefits for people for the first month of coronavirus-related illnesses. The government's direct fiscal support measures (about DKK 80 billion) represents 3.5% of 2019 GDP.

The economic stimulus measures comprise: a lowered counter-cyclical buffer to 0% from 1% to allow about DKK 200 billion additional lending space for banks; and state guarantees on 70% of new loans for companies (up to DKK 1 billion) aimed at covering losses triggered by the coronavirus outbreak. There are also tax payment deferrals for companies, temporary fixed cost compensation in the event of significant revenue decline; financial support to travel agencies (and in the event of their bankruptcies also for customers); subsidies covering costs related to the cancellation or postponement of entertainment events; and incentives for municipalities to accelerrate public investments. Total government guarantees and grants (almost DKK 100 billion) amounts to about 4% of 2019 GDP.

Two Acquisitions in 2019 Neutral for Nykredit's Credit Profile

In August 2019, Nykredit acquired a 75% stake in Sparinvest Holding SE (investment fund present in 14 European countries). Revenue synergies from higher sales of investment products throughout the group will be difficult to achieve in 2020. At end-2019, Sparinvest equalled about 30% (DKK 100 billion) of Nykredit's assets under management. In December 2019, Nykredit opportunistically took over a 100% stake in LR Realkredit, a small Danish mortgage loan provider (only about 1.5% of Nykredit's loan book at end-2019). Nykredit recognised DKK 564 million badwill, which increased its 2019 pre-tax profit by 6%.

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 Summary and Key Qualitative Assessment Factors

Solid Market Position

Nykredit is a leading Danish mortgage lender. Its market share has been stable (42% at end-2019), reflecting the bank's well-entrenched market position. The group provides a full range of services that supplement its core mortgage products, including banking products through Nykredit Bank (which is allowed to take deposits). A sizeable portion of the dividend paid to Forenet Kredit (the majority owner holding almost 80% stake) is channelled back through the bank to borrowers in the form of discounts. Totalkredit originates loans through 52 partner banks and offers the lowest administration margins in the market on the most popular types of mortgage loans.

Nykredit's business model is less diversified than that of higher rated peers, but it benefits from a healthy balance between low-risk appetite and stable income. Nykredit is less vulnerable to negative interest rates than commercial banks given the mortgage financing pass-through model. Nykredit is (by law) financed predominantly through covered bonds and is internationaly a large issuer of these bonds.

Well-Executed Strategy

Nykredit's management is strong with a high degree of depth and experience and its strategic goals are well-articulated and consistent. The group has a good record of stable financial metrics and achieving business and financial targets through the cycle. Nykredit wants to defend its leading mortgage bank position in Denmark, and gradually develop a full-service offer for customers, but also expand its partnership with Totalkredit partner banks.

Low Risk Appetite

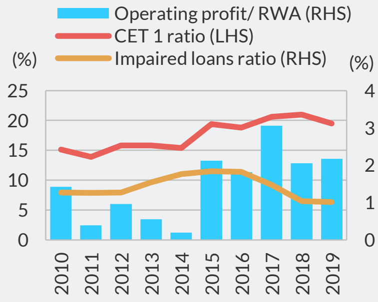
Nykredit's loan book is dominated by personal and business mortgage loans, which amounted to 60% and 35% respectively of total loans at end-2019. The remaining 5% of loans are predominantly diversified non-retail loans from Nykredit Bank. Credit risk outside the loan book is low. Nykredit invests its surplus liquidity in highly rated (mainly 'AAA') and liquid covered bonds issued by domestic mortgage banks. Its strong historical ability to control credit risk is demonstrated by its low credit losses through the cycle.

Nykredit observes tight underwriting standards for mortgage loans. These are underpinned by the conservative Danish covered bond legislation and regulatory constraints set by the Danish FSA. Nykredit applies a loan/value (LTV) cap of 80% for most mortgage loans and 60% for riskier lending, such as financing agricultural, office or retail properties. Single name concentration in the mortgage book is moderate. The regulations for mortgage banks cap the sum of the 20 largest exposures at the bank's equity level.

Nykredit's lending growth recently has been modest. In 2019, growth accelerated to almost 8%, but we expect this rate to subside in 2020. Nykredit's capital policy of maintaining its common equity Tier 1 (CET1) ratio in the range of 15.5%-16.5% limits excessive credit expansion.

Nykredit's market risk exposure is low. The structural interest rate risk in the banking book is insignificant because there is no interest rate mismatch between mortgage loans and covered bonds and both are carried at fair value. Nykredit's trading activity is small and appropriately hedged. At end-2019, Nykredit held a moderate portfolio of equities and legacy exposure to interest-rate swaps, which represented almost 9% and about 6% of of CET1 capital, respectively. The latter is a source of volatility in the income statement given the weak credit standing of counterparties (housing cooperatives), but this portfolio is in run-off.

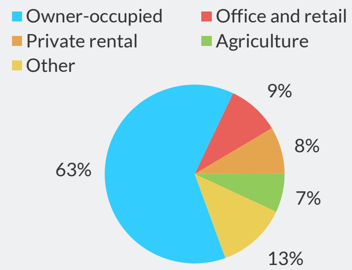
Results Through-The-Cycle



Source: Fitch Ratings, Nykredit

Mortgage Book Split

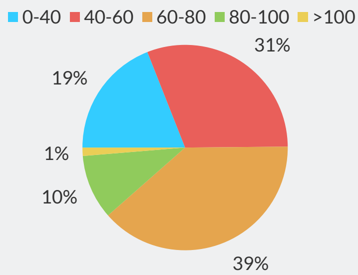
End-2019



Source: Fitch Ratings, Nykredit

LTVs in Mortgage Lending

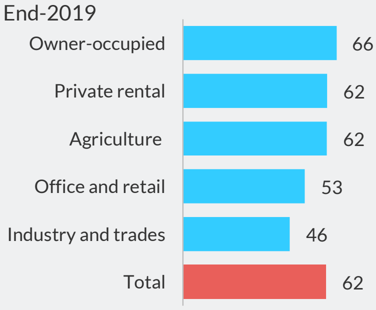
End-2019



Source: Fitch Ratings, Nykredit

Average LTV (%)

End-2019



Source: Fitch Ratings, Nykredit

Summary Financials and Key Ratios

	31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 16
	Year end	Year end	Year end	Year end
	(DKKm)	(DKKm)	(DKKm)	(DKKm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement				
Net interest and dividend income	11,207	11,019	11,618	11,981
Net fees and commissions	-433	-488	-232	-199
Other operating income	3,764	1,781	4,321	846
Total operating income	14,538	12,312	15,707	12,628
Operating costs	5,346	4,890	5,068	5,124
Pre-impairment operating profit	9,197	7,413	10,660	7,512
Loan and other impairment charges	995	380	379	920
Operating profit	8,202	7,033	10,281	6,592
Other non-operating items (net)	564	0	-200	-1,907
Tax	1,339	1,293	2,077	1,494
Net income	7,427	5,740	8,004	3,191
Other comprehensive income	22	-7	-5	31
Fitch comprehensive income	7,449	5,733	7,999	3,222
Summary balance sheet				
Assets				
Gross loans	1,361,342	1,262,502	1,227,999	1,188,714
- Of which impaired	13,683	13,088	18,044	21,669
Loan loss allowances	7,891	7,643	7,601	8,289
Net loans	1,353,451	1,254,859	1,220,398	1,180,425
Interbank	48,927	19,188	43,728	31,463
Derivatives	21,500	18,457	19,269	28,894
Other securities and earning assets	167,968	138,549	132,124	148,287
Total earning assets	1,591,846	1,431,053	1,415,519	1,389,069
Cash and due from banks	7,210	8,861	2,070	2,087
Other assets	11,280	8,062	9,157	9,450
Total assets	1,610,336	1,447,976	1,426,746	1,400,606
Liabilities				
Customer deposits	85,396	76,918	75,914	65,415
Interbank and other short-term funding	32,380	31,937	30,033	36,243
Other long-term funding	1,378,043	1,229,830	1,213,567	1,184,753
Trading liabilities and derivatives	17,580	17,323	15,211	28,599
Total funding	1,513,399	1,356,008	1,334,725	1,315,010
Other liabilities	12,559	12,085	13,251	14,639
Preference shares and hybrid capital	3,777	3,772	3,765	3,760
Total equity	80,601	76,111	75,005	67,197
Total liabilities and equity	1,610,336	1,447,976	1,426,746	1,400,606

Summary Financials and Key Ratios

	31 Dec 19	31 Dec 18	31 Dec 17	31 Dec 16
Ratios (annualised as appropriate)				
Profitability				
Operating profit/RWAs	2.2	2.1	3.1	1.8
Net interest income/average earning assets	0.7	0.8	0.8	0.8
Non-interest expense/gross revenue	36.6	39.7	32.3	42.9
Net Income/average equity	9.6	7.7	11.1	8.3
Asset quality				
Impaired loans ratio	1.0	1.0	1.5	1.8
Growth in gross loans	7.8	2.8	3.3	1.2
Loan loss allowances/impaired loans	57.7	58.4	42.1	38.3
Loan impairment charges/average gross loans	0.1	0.0	0.0	0.1
Capitalisation				
CET1 ratio	19.5	21.0	20.6	18.8
Tangible common equity ratio	4.9	5.2	5.2	4.8
Basel leverage ratio	4.4	4.8	4.6	4.6
Net impaired loans/CET1 capital	7.8	7.5	15.1	20.3
Funding and liquidity				
Loans/customer deposits	1,594.2	1,641.4	1,617.6	1,817.2
Liquidity coverage ratio	955.0	752.0	383.0	321.0
Customer deposits/funding	5.7	5.7	5.7	5.1
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Bank

FitchRatings

Key Financial Metrics – Latest Developments

Coronavirus Lockdown Drags on Asset Quality

We expect that payment holidays, and a more relaxed approach to debt restructuring and government guarantees, should mitigate loan transfers to Stage 2 and Stage 3 and a corresponding increase in credit losses.

The lending quality impact from increased covered bond pricing (which is passed on directly to borrowers at covered bond refinancing) is small. Nykredit aims to keep annual covered bond refinancing needs at a moderate rate of 10%-15% of the total outstanding amount. A moderate price correction in the property market would be easily manageable given prudent regulatory LTV caps in loan underwriting. The resilience of retail borrowers is also underpinned by the shrinking share of riskier interest-only mortgage loans. At end-2019, 58% of mortgage loans (originated through Totalkredit) benefited from a set-off agreement with partner banks. Credit losses on the part of the loan exceeding 60% of the mortgage loan value (at origination) can be set off against commission payments to the originating banks.

The impaired loans ratio at Nykredit Bank (3.7% at end-2019) is higher than at the mortgage bank (0.9%), due to Nykredit Bank's higher risk appetite and lower share of secured lending. Nykredit Bank's weaker asset quality is mitigated by its adequate coverage of Stage 3 loans by loan loss allowances (75%). The lower reserve coverage of impaired loans at the mortgage bank (23% at end-2019) should be seen in light of robust collateralisation and high granularity.

2020 Profitability Under Pressure

2020 results will suffer from weaker credit demand and wealth management income coupled with higher impairment charges. Costs will also increase modestly due to the full-year impact of acquisitions made in 2019 and investment in compliance. In 2019, Nykredit's results benefited from exceptionally high remortgaging activity, solid loan growth (almost 8%), sizeable badwill and trading gains on bonds and equities. Remortgaging gained momentum from 2Q19 and boosted Nykredit's fee income, but it will be a drag on the bank's margins because many customers are locked in historically low mortgage rates through taking long-term fixed rate loans with lower margins.

Solid Capitalisation and Leverage

Nykredit's capital ratios are boosted by low risk weights on residential and commercial mortgage loans (about 12% and 25%, respectively at end-2019). Nykredit's CET1 ratio declined slightly to 19.5% at end-2019 due to RWA growth (up 10% in 2019), but remained solid compared with the internal floor of 15.5%-16.5% and regulatory minimum of about 12.6%. The capital surplus over regulatory minimum amounted to almost 2% of Nykredit's gross loans at end-2019. Forenet Kredit, together with a number of Danish pension funds, have earmarked about DKK16.4 billion to recapitalise the bank if needed.

Nykredit is subject to Danish resolution requirements, including a debt buffer (capital surplus or senior debt) of at least 2% of mortgage lending for the mortgage institution and MREL at Nykredit Bank. In addition, from 2022, the group's own funds, liabilities eligible for bail-in, and debt buffer should be at least 8% of the consolidated balance sheet.

Stable Funding, Low Refinancing Risk

The Danish mortgage bonds market remained liquid despite coronavirus disturbance, (although prices went up), supported by the strong demand for these bonds from Danish financial institutions, insurance companies and pension funds. They need to hold highly liquid and highly-rated securities in domestic currency, and there is limited outstanding of Danish government bonds. At end-2019, covered bonds represent about 90% of Nykredit's funding, of which about 25% were held by international investors.

High balance sheet encumbrance is mitigated by its strong loan book quality and sizeable liquidity buffer that comfortably covers unsecured funding. Alongside mortgage bonds, the group has access to diversified funding sources. The bank plans to refinance existing senior preferred debt with SNP debt. The Danish regulator requires mortgage banks to keep liquid assets of at least 2.5% of total mortgage lending (the ratio was 3.9% at end-2019).

Note on Charts

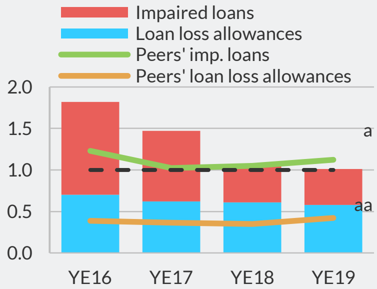
Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category.

Peers for the charts include Nykredit (VR: 'a'), Nationwide Building Society (a), Realkredit Danmark A/S (a), Coventry Building Society (a-) and Santander UK Plc (a).

Nationwide Building Society's FY ends in April. The latest period average calculation uses end-3Q19/9M19 data for Nationwide Building Society.

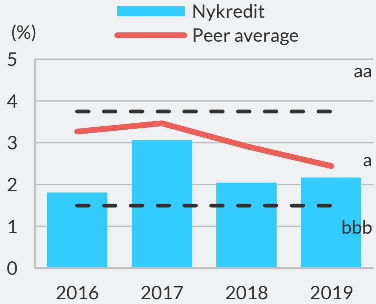
Asset Quality

(% gross loans)



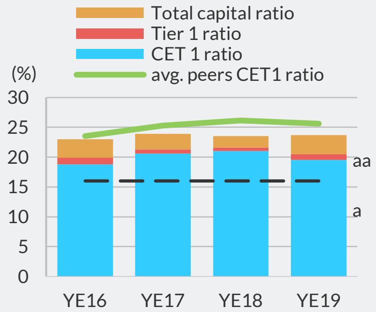
Source: Fitch Ratings, banks

Operating Profit/RWAs



Source: Fitch Ratings, banks

Risk-Weighted Capital Ratios



Source: Fitch Ratings, banks

Sovereign Support Assessment

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

Nykredit's '5' Support Rating and Support Rating Floor of 'No Floor' reflect Fitch's view that senior creditors cannot rely on full extraordinary support from the sovereign in the event of the bank becoming non-viable. The EU's Bank Recovery and Resolution Directive provides a framework for resolving banks that will require senior creditors to participate in losses, if necessary, instead of or ahead of a bank receiving sovereign support.

Environmental, Social and Governance Considerations

FitchRatings **Nykredit Realkredit A/S**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Nykredit Realkredit A/S has 5 ESG potential rating drivers

- Nykredit Realkredit A/S 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 Priniciples 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 a minimal credit impact on the entity, either due to their nature or to the way in which they are being managed by the entity. For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

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.