FitchRatings

King's Town Bank Co., Ltd.

Key Rating Drivers

Driven by Intrinsic Profile: King's Town Bank Co., Ltd.'s (KTB) ratings are driven by its Viability Rating (VR), which is in line with the implied VR. The ratings and Stable Outlook reflect our expectation that KTB will retain an adequate risk profile, sufficient core capitalisation and a sound liquidity profile. This will help the bank to withstand potential earnings volatility from its larger foreign bond investments (9% of total assets at end-3Q23) and its asset quality due to higher borrower concentration and property lending relative to peers.

Short-Term IDR: KTB's Short-Term Issuer Default Rating (IDR) of 'F3' is at the baseline option that maps to its Long-Term IDR, as its funding and liquidity score of 'bbb' does not meet the minimum 'bbb+' score to achieve a higher rating.

Market-Risk Exposure Above Peers: KTB has higher exposure to market risks than other small-bank peers, due to its larger appetite in foreign bond and stock investments. Therefore, a rise in bond yields may result in a larger reduction of KTB's equity than other Fitch-rated small banks in Taiwan. However, we expect the impact to be manageable relative to its net worth, underpinned by its consistent risk profile as well as its sufficient loss-absorption buffer.

We do not expect KTB to expand its foreign bond investments in the near term, as the pressure from narrow bond spreads is likely to continue based on high interest rates and funding costs.

Stable Asset Quality: KTB's asset quality score of 'bbb+' has been assigned below the 'aa' category implied score, reflecting its higher concentration in SME borrowers and larger exposure to foreign bond investments relative to peers. We expect a small rise in its impaired-loan ratio in 2024 from a low base of 0.03%. That said, KTB's moderate loan-to-value ratio, alongside a resilient domestic property market, should support the credit quality of its property-related exposures.

Profitability Above Peers but Volatile: We forecast KTB's operating profit/risk-weighted assets (OP/RWA) ratio to decline to 1.9% in 2024, from 2.3% in 2023, due mainly to lower investment gains and higher credit costs from a low base. The ratio improved to 2.3% in 2023, from 0.9% in 2022, due to trading gains from stock and bond investments. Our assessment of KTB's profitability incorporates the bank's stronger, yet more volatile, profitability relative to peers, caused by swings in its investment performance.

Sound Capital Buffer: KTB's capitalisation and leverage score of 'bbb+' is below the 'a' category implied score. The bank's business model and risk profile are more prone to performance swings due to its larger investment book and higher borrower concentration than peers. Therefore, we expect it to keep core capitalisation above peers' to buffer against potential earnings volatility.

We forecast its common equity Tier 1 (CET1) ratio to rise to 15.8% by end-2025, buttressed by a moderate dividend payout and mild balance-sheet growth. KTB's reported CET1 ratio improved to 15.4% by end-2023, from 12.9% at end-2022, on its strong profitability in 2023, in addition to a reversal of its bond valuation losses as rates peaked. The sector CET1 average was around 11% in 2022-1H23.

Modest-but-Stable Funding Profile: KTB's funding and liquidity score of 'bbb' has been assigned below the 'a' category implied score, given its small deposit franchise that inherently carries higher funding vulnerability than peers with strong deposit-based funding. The assessment incorporates KTB's ability to attract small-sized deposits from local communities and SMEs in southern Taiwan. Customer deposits make up around 90% of its total funding, and we expect the loan-to-deposit ratio to remain steady from 79% at end-2023.

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F3
Viability Rating	bbb
Government Support Rating	ns
National Rating	
National Long-Term Rating	A+(twn)
National Short-Term Rating	F1(twn)
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)
National Scale Rating Criteria (December 2020)

Related Research

Fitch Affirms King's Town Bank at 'BBB'; Outlook Stable (March 2024)
APAC Developed Market Banks Outlook 2024 (November 2023)
Profitability of Taiwan's Bills Finance Companies to Recover as Interest Rates Peak (December 2023)
Slower Loan Growth Not Yet Constraining Taiwan Banks' Profitability (August 2023)

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Rating Sensitivities

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

IDRs and VR

KTB's ratings could be downgraded if its risk or growth appetite rises significantly in pursuit of yield compared with its internal capital generation, possibly linked to its larger investment exposure and higher loan-concentration risks - in turn leading to sustained deterioration in asset quality, profitability and capitalisation. For example, this could occur if its OP/RWA falls below 1.2% for a sustained period, its CET1 ratio falls towards 12%, and its impaired-loan ratio approaches 3%, with no credible plan to return to current levels.

Short-Term IDR

KTB's Short-Term IDRs will be downgraded if its VR is downgraded to 'bb+' or below.

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

IDRs and VR

Rating upside is limited unless the bank can improve its franchise and profitability significantly, for example if the OP/RWA ratio is sustained above 2% with moderate earnings volatility.

Short-Term IDR

KTB's Short-Term IDR could be upgraded if its VR is upgraded to 'bbb+' or above, or its funding and liquidity score is revised to 'bbb+' or above.

Other Debt and Issuer Ratings

National Ratings

KTB's National Long- and Short-Term Ratings are at the high end of our National Rating scale, reflecting low default risk relative to domestic issuers. The Stable Outlook is in line with the Outlook on its IDR. The affirmation of the National Ratings indicates no change in our view of the credit profile relative to the rated universe of issuers in Taiwan.

Government Support Rating

KTB's Government Support Rating (GSR) of 'ns' reflects its lower systemic importance (deposit market share of 0.5% at end-2023), and hence no reasonable assumption that extraordinary government support will be available in the event of stress.

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

National Ratings

A downgrade of KTB's National Ratings would arise from a weakening in its overall credit profile relative to the rated universe of issuers in Taiwan.

Government Support Ratings

There is no downside for KTB's GSR as it is already at the lowest level.

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

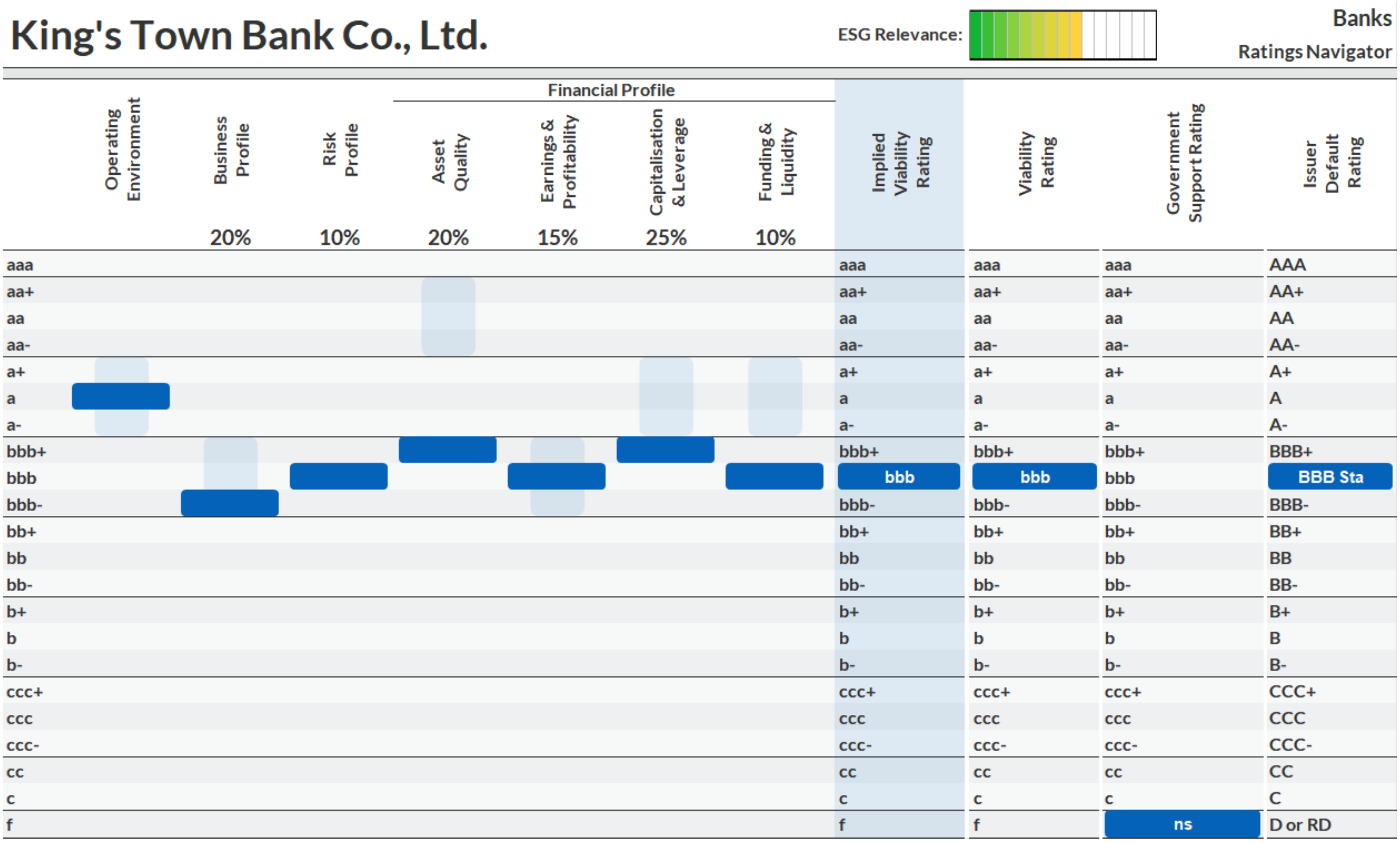
National Ratings

Strengthening in the bank's overall credit profile relative to the rated universe of issuers in Taiwan could lead to an upgrade of its National Ratings.

Government Support Ratings

The GSR could be upgraded if Fitch assesses a higher propensity from government to provide timely extraordinary support to KTB, such as due to an increase in the bank's scale and market presence. However, Fitch does not expect such a change over the medium term.

Ratings Navigator



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

VR - Adjustments to Key Rating Drivers

The asset quality score of 'bbb+' has been assigned below the 'aa' category implied score for the following adjustment reasons: concentration (negative), non-loan exposures (negative).

The capitalisation and leverage score of 'bbb+' has been assigned below the 'a' category implied score for the following adjustment reason: risk profile and business model (negative).

The funding and liquidity score of 'bbb' has been assigned below the 'a' category implied score for the following adjustment reason: deposit structure (negative).

Company Summary and Key Qualitative Factors

Operating Environment

Taiwan's economy is recovering with real GDP rising by 1.4% yoy in 2Q23, 2.2% in 3Q23 and 4.9% in 4Q23, after contracting by 3.5% in 1Q23. We expect external demand to recover further in 2024, underpinned by an upturn in the tech cycle, which should support a gradual strengthening of exports and stronger capex by major semiconductor manufacturers in 2024. Fitch forecasts a pause in policy rate movement in 2024, after a rate hike of 12.5bp in March 2024. The policy rate after the latest hike is 2%.

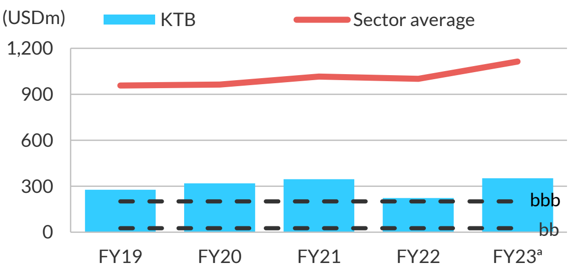
Business Profile

Niche in SME Lending

KTB is headquartered in southern Taiwan, and had a small 0.5% deposit market share at end-2023. The bank focuses on lending to SMEs, real estate, green energy and project finance. KTB's SME loans have grown strongly in recent years, and accounted for 61% of total loans at end-3Q23 from 51% at end-2018.

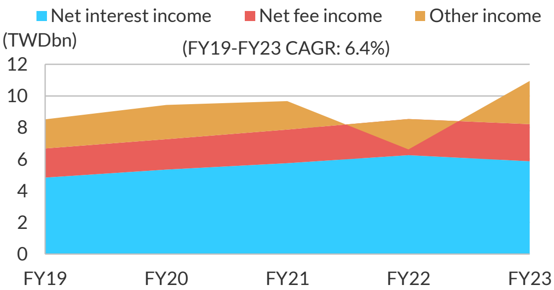
Its asset allocation differs from peers, with foreign bond investments making up 9% of its assets as the bank views foreign bonds as loan alternatives but with higher liquidity as well as better interest yield. The bank's loans contracted by 5% in 2023, mainly due to muted demand amid high interest rates and subdued economic growth. Loans remained stable at 61% of assets at end-2023, which is comparable to that of rated peers.

Total Operating Income



[a] annualised 9M23 for sector average
Source: Fitch Ratings, Fitch Solutions, banks

Revenue Breakdown



CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, KTB

Risk Profile

Adequate Risk Profile

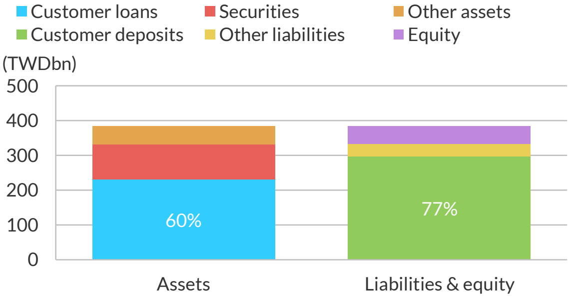
We view KTB's underwriting standards as in line with most banks in Taiwan. The risks associated with its higher growth in SME lending in recent years are mitigated by its high level of collateralisation. Its secured loan ratio was 67% at end-3Q23, and most are collateralised by real estate. It also focuses on selected industries, such as property development as well as green energy, where it has accumulated expertise.

Risks in KTB's construction loans are managed through moderate loan-to-value ratios, prudent selection in prime locations, strict drawdowns based on construction work progress, and the use of trust agreements to ensure segregation of funds for specific construction projects. Moreover, we view risks associated with property-related loans as mitigated by Taiwan's resilient property market (supported by reshoring activities from Taiwan-based manufacturers) as well as prudential regulations over property lending.

We view that KTB has a higher market-risk appetite than peers, because of its larger investment book. Government securities in Taiwan formed about 16% of KTB's assets at end-3Q23, followed by foreign bonds (9%) and stocks (2%). That said, over 86% of its foreign bonds consisted of investment-grade securities in the last four years, and are well-diversified in terms of geography. The bank has in place stringent stop-loss mechanisms to limit potential losses in its investment book. FX risk in its investment book is modest, as its foreign bond investments are funded mainly by its US dollar deposits, US dollar repos, as well as interbank placements.

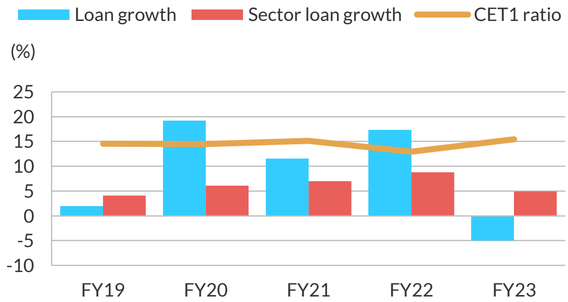
Balance Sheet

End-2023



Source: Fitch Ratings, Fitch Solutions, KTB

Loan Growth



Source: Fitch Ratings, Fitch Solutions, KTB

Financial Profile

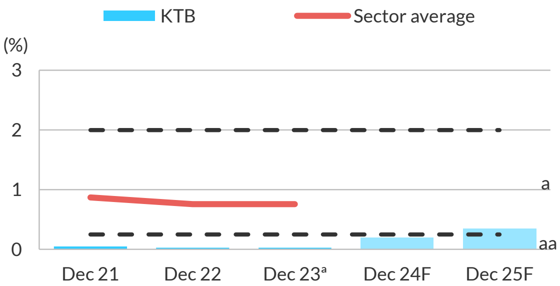
Asset Quality

Sound Asset Quality

KTB's asset quality score of 'bbb+' is supported by its stable loan quality. The assigned score considers negative adjustments for its higher SME concentration as well as higher market risk relative to peers despite its low impaired-loan ratios. To mitigate its concentration risk, the bank enforces effective risk controls, maintains sufficient collateralisation and sustains stable asset quality through the cycle.

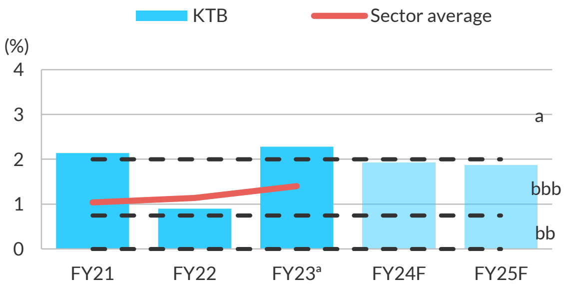
We expect sufficient collateralisation and consistent underwriting standards to support the asset quality of its large property-related exposures. The impaired-loan ratio remained low at 0.03% at end-2023. A potential rise in credit costs from unwinding of relief measures and its loan expansion in prior years should be manageable, due in part to Taiwan's stable operating environment. In addition, its relief lending limit accounted for only 0.8% of total loans at end-3Q23 (sector average: 15%), which are mostly guaranteed by the government.

Impaired Loans/Gross Loans



[a] Sep23 for sector average
Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



[a] annualised 1H23 for sector average
Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Higher Earnings Volatility than Peers

KTB's earnings and profitability score of 'bbb' reflects its better, but more volatile, profitability through economic cycles, due to its larger appetite in foreign-bond and stock investments relative to peers. KTB has maintained profitability above its peers in previous years. Even in 2022, when it was hit by large investment losses and impairment charges on Russian-related exposures, KTB's OP/RWA ratio was still comparable with the sector average (KTB: 0.9%; sector: 1.1%). The bank's level of recurrent earnings from lending and related fee income are commensurate with its earnings and profitability score of 'bbb'.

We forecast the OP/RWA ratio to modestly decline in 2024, due to lower trading gains and a small rise in credit costs, though its core profitability should remain stable. This is supported by the bank's steady loan and fee income growth, along with its stabilising bond-investment spreads as interest rates peaked. Meanwhile, the bank proactively managed its funding costs by attracting more retail demand deposits, despite continued term deposit migration, similar to its peers. Its net interest margins declined to 1.6% in 2023 from 1.9% in 2022, led by narrowed bond spreads amid rate hikes.

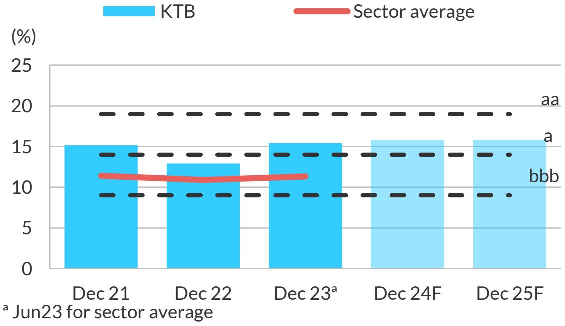
Capital and Leverage

Sufficient Capital Buffer to Cushion Volatility

KTB's capitalisation and leverage score of 'bbb+' reflects Fitch's expectation that it will sustain its core capitalisation above that of its peers despite its high growth in prior years. The bank intends to maintain satisfactory capital buffers above the regulatory minimum, as its capitalisation may be more vulnerable to external shocks given its larger foreign bond investments and higher borrower concentration relative to its peers. The bank's CET1 ratio has been consistently higher than peers, ranging from 13%-16% over 2016-2023 versus the sector average of around 10%-11%.

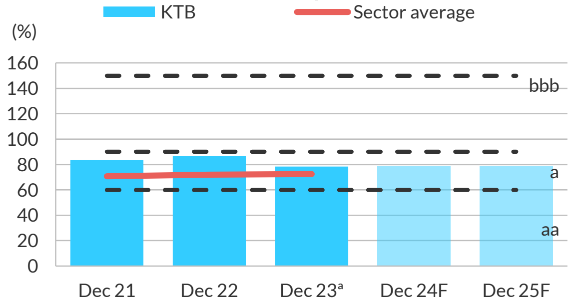
We forecast KTB's CET1 ratio to gradually improve to 15.8% by end-2025 through strong internal capital generation as well as moderate balance-sheet growth. The bank's internal capital generation is generally sufficient to support its organic growth given its moderate dividend payout ratio at around 40%. It announced a one-off increase in its dividend distribution in 2024 to make up for the dividend cut in 2023.

CET1 Ratio



[a] Jun23 for sector average
Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



[a] Sep23 for sector average
Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Stable Funding and Liquidity

KTB's funding and liquidity score of 'bbb' reflects its stable liquidity profile, though our assessment of its funding and liquidity is constrained by its limited deposit franchise. The loan/deposit ratio dropped to 79% by end-2023 from 87% at end-2022 due to its subdued loan growth, albeit higher than the sector average (end-3Q23: 73%).

The bank's liquidity coverage ratio improved to 173% by end-3Q23 from 114% at end-2022, as its government-related as well as high credit-quality bond investments increased while deposits growth slowed down. We expect its liquidity to remain stable, underpinned by its established regional franchise as well as ample system liquidity. KTB's retail and SME deposits made up over 75% of its total deposits, which is comparable with other domestic peers with stronger deposit franchises.

Additional Notes on Charts

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

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

Financials

Summary Financials

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(TWDm)	(TWDm)	(TWDm)	(TWDm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	191	5,859.4	6,243.0	5,734.1	5,344.8
Net fees and commissions	77	2,354.2	2,296.5	2,131.1	1,909.3
Other operating income	89	2,723.9	-1,922.8	1,803.2	2,165.8
Total operating income	356	10,937.5	6,616.7	9,668.4	9,419.9
Operating costs	82	2,532.8	2,191.4	1,942.2	1,899.9
Pre-impairment operating profit	273	8,404.7	4,425.3	7,726.2	7,520.0
Loan and other impairment charges	34	1,045.7	1,481.1	1,221.2	1,257.5
Operating profit	239	7,359.0	2,944.2	6,505.0	6,262.5
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	37	1,151.9	733.8	874.7	771.5
Net income	202	6,207.1	2,210.4	5,630.3	5,491.0
Other comprehensive income	88	2,713.1	-5,969.6	-1,433.0	2,113.2
Fitch comprehensive income	290	8,920.2	-3,759.2	4,197.3	7,604.2
Summary balance sheet					
Assets					
Gross loans	7,604	233,708.4	245,911.5	209,527.2	187,842.9
- Of which impaired	2	69.5	70.4	97.4	254.2
Loan loss allowances	118	3,622.2	3,576.5	3,170.1	2,941.7
Net loans	7,486	230,086.2	242,335.0	206,357.1	184,901.2
Interbank	833	25,614.6	15,206.4	12,724.2	12,542.6
Derivatives	2	52.8	7.4	33.0	7.4
Other securities and earning assets	3,371	103,594.3	97,957.9	104,801.1	113,056.6
Total earning assets	11,692	359,347.9	355,506.7	323,915.4	310,507.8
Cash and due from banks	136	4,172.0	5,107.9	4,832.3	3,982.3
Other assets	678	20,828.2	19,372.2	14,401.6	10,967.8
Total assets	12,505	384,348.1	379,986.8	343,149.3	325,457.9
Liabilities					
Customer deposits	9,686	297,684.9	283,510.0	251,036.6	226,932.7
Interbank and other short-term funding	1,020	31,341.3	49,597.1	38,883.0	48,596.0
Other long-term funding	n.a.	n.a.	n.a.	n.a.	0.0
Trading liabilities and derivatives	1	35.9	35.2	14.7	13.1
Total funding and derivatives	10,706	329,062.1	333,142.3	289,934.3	275,541.8
Other liabilities	168	5,171.4	4,427.8	4,334.0	3,333.0
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	1,631	50,114.6	42,416.7	48,881.0	46,583.1
Total liabilities and equity	12,505	384,348.1	379,986.8	343,149.3	325,457.9
Exchange rate		USD1 = TWD30.735	USD1 = TWD30.708	USD1 = TWD27.69	USD1 = TWD28.508

Source: Fitch Ratings Fitch Solutions

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.3	0.9	2.1	2.2
Net interest income/average earning assets	1.6	1.9	1.8	1.9
Non-interest expense/gross revenue	23.2	33.1	20.1	20.2
Net income/average equity	13.6	5.0	11.7	13.3
Asset quality				
Impaired loans ratio	0.0	0.0	0.1	0.1
Growth in gross loans	-5.0	17.4	11.5	19.2
Loan loss allowances/impaired loans	5,211.8	5,080.3	3,254.7	1,157.2
Loan impairment charges/average gross loans	0.0	0.1	0.9	0.4
Capitalisation				
Common equity Tier 1 ratio	15.4	12.9	15.2	14.5
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	15.6	13.0	16.1	16.1
Tangible common equity/tangible assets	13.0	11.2	14.2	14.3
Basel leverage ratio	12.6	10.7	12.9	12.3
Net impaired loans/common equity Tier 1	-7.2	-8.3	-6.7	-6.4
Net impaired loans/Fitch Core Capital	-7.1	-8.3	-6.3	-5.8
Funding and liquidity				
Gross loans/customer deposits	78.5	86.7	83.5	82.8
Gross loans/customer deposits + covered bonds	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	215.1	114.1	140.8	141.8
Customer deposits/total non-equity funding	90.5	85.1	86.6	82.4
Net stable funding ratio	145.0	130.2	144.9	134.1

Source: Fitch Ratings Fitch Solutions

Support Assessment

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

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

KTB's GSR of 'ns' reflects a very low level of systemic importance (deposit market share of 0.5% at end-2023), and hence no reasonable assumption that extraordinary government support will be available in the event of stress.

Environmental, Social and Governance Considerations

FitchRatings **King's Town Bank Co., Ltd.** Banks Ratings Navigator

Credit-Relevant ESG Derivation

King's Town Bank Co., Ltd. has 5 ESG potential rating drivers

- King's Town Bank Co., Ltd. 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.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

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

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

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

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

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

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

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

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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