FitchRatings

Banks
Bank Holding Companies
United Kingdom

Santander UK Group Holdings plc

Key Rating Drivers

Conservative Risk Profile, Less Diversified Business: Santander UK Group Holdings plc (SGH) and Santander UK plc's (San UK) Viability Ratings (VRs) are based on SGH's consolidated financial profile and reflect the group's conservative risk appetite, low impaired loan ratio, strong capitalisation, and stable funding and liquidity profiles. They also reflect a less-diversified business model than peers, which weighs on the group's earnings.

Weaker Economic Outlook: Fitch Ratings expects UK banks' performance to weaken in 2023, given the recession, materially higher interest rates, high inflation and a rise in unemployment, and for credit losses to rise from low levels. Net interest income growth will slow, in Fitch's view, as materially higher funding costs weigh on net interest margins. Loan growth is likely to slow as higher interest rates dampen demand for mortgage loans and borrower confidence remains weak due to affordability pressures and market uncertainty.

Asset-Quality Deterioration Expected: SGH's asset quality is underpinned by its large mortgage portfolio, and its impaired loans ratio was a low 1.2% at end-9M22. However, we expect the impaired loans ratio to deteriorate toward – but to not exceed – 2% into 2024 given the expected recession, materially higher interest rates and borrower affordability pressures. Impairment charges are likely to rise with the weaker economic outlook but will remain manageable given the largely secured loan book.

Earnings Uplift to Moderate: SGH's operating profit/risk-weighted assets (RWAs; 2.8% in 9M22) ratio has benefitted from rising interest rates, particularly given its large proportion of low-cost current account deposits. We expect the uplift from base rate rises to diminish as deposit costs increase with competition, particularly as banks replace central bank funding. We expect cost efficiency to improve from 2023, given SGH's large cost-reduction programme.

Strong Capitalisation: SGH's common equity Tier 1 (CET1) ratio fell to 15.5% at end-9M22 from 15.9% at end-2021 due to higher RWAs as a result of lending growth and regulatory changes. Capital is managed to about a 5% UK leverage ratio (end-9M22 actual: 5.3%), given the low RWAs density of the loan book. We expect excess capital above management buffers to be repatriated to SGH's parent, Banco Santander, S.A. (Santander; A-/Stable), via dividends.

Stable Funding and Liquidity: SGH is largely deposit-funded, with a loans/deposit ratio of 115% at end-9M22, and its funding costs benefit from its retail and SME current account deposits (about half of customer deposits). Funding stability is supported by proven access to wholesale-funding markets, ordinary support from Santander and access to the Bank of England's liquidity schemes, if needed.

The Short-Term Issuer Default Ratings (IDRs) of 'F1' for SGH and its rated subsidiaries are the lower of two options mapping to the Long-Term IDRs, as our assessment of the group's funding and liquidity profile does not warrant a higher Short-Term IDR.

Standalone Strength Drives Ratings: SGH's Long-Term IDR is driven by the group's standalone creditworthiness – as expressed by its VR.

San UK IDR Uplift: San UK's Long-Term IDR is one notch above the VR because SGH's single-point-of-entry UK resolution plan envisages San UK's third-party senior creditors being protected in a bank failure by sufficient qualifying junior debt (QJD) and equity raised by SGH. Fitch calculates a QJD buffer equivalent to 20.5% of RWAs at end-9M22, excluding instruments ineligible for the minimum requirement for eligible liabilities.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Shareholder Support Rating	bbb+
Sovereign Risk (United Kingdom)	
Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms Santander UK Group Holdings at 'A'; Outlook Stable (December 2022)

Western European Banks Outlook 2023 (December 2022)

Fitch Affirms United Kingdom at 'AA-'; Outlook Negative (December 2022)

Major UK Banks – Peer Review 2022 (October 2022)

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Rating Sensitivities

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

The ratings are primarily sensitive to changes in the VR, which could be downgraded if the deterioration in the UK operating environment is materially worse than we currently expect. SGH would retain some rating headroom in a scenario where the UK banks' operating environment score was downgraded to 'a+' from 'aa-', but we would downgrade its VR if we expected the impaired loans ratio to increase above 3% without a clear path to reduction, and if its CET1 ratio fell below 13%–14% on a sustained basis.

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

An upgrade of the VR is unlikely given the weaker macroeconomic outlook in the UK and the negative outlooks on the operating environment score and the UK sovereign. Over the longer term, positive rating potential would require SGH's business model to become significantly more diversified and comparable with those of higher-rated UK peers, which resulted in stronger and more sustainable earnings while capital ratios remained solid.

Other Debt and Issuer Ratings

Rating level	SGH	San UK	Santander Financial Services plc
Long-Term IDR	A	A+	A+
Short-Term IDR	F1	F1	F1
Viability Rating	a	a	
Shareholder Support Rating	bbb+	bbb+	a
Derivative Counterparty Rating		A+(dcr)	
Long- and short-term senior unsecured debt and programmes	A/F1	A+/F1	
Tier 2 subordinated debt	BBB+	BBB+	
Legacy upper Tier 2		BBB	
Non-innovative Tier 1 notes		BBB-	
Additional Tier 1 debt	BBB-		

Source: Fitch Ratings

Senior Unsecured Debt

The senior unsecured debt instruments of all entities are rated in line with their Long-Term IDRs.

Derivative Counterparty Ratings (DCR)

San UK's DCR is at the same level as the bank's Long-Term IDR because derivative counterparties have no preferential status over other senior obligations in a resolution under UK legislation.

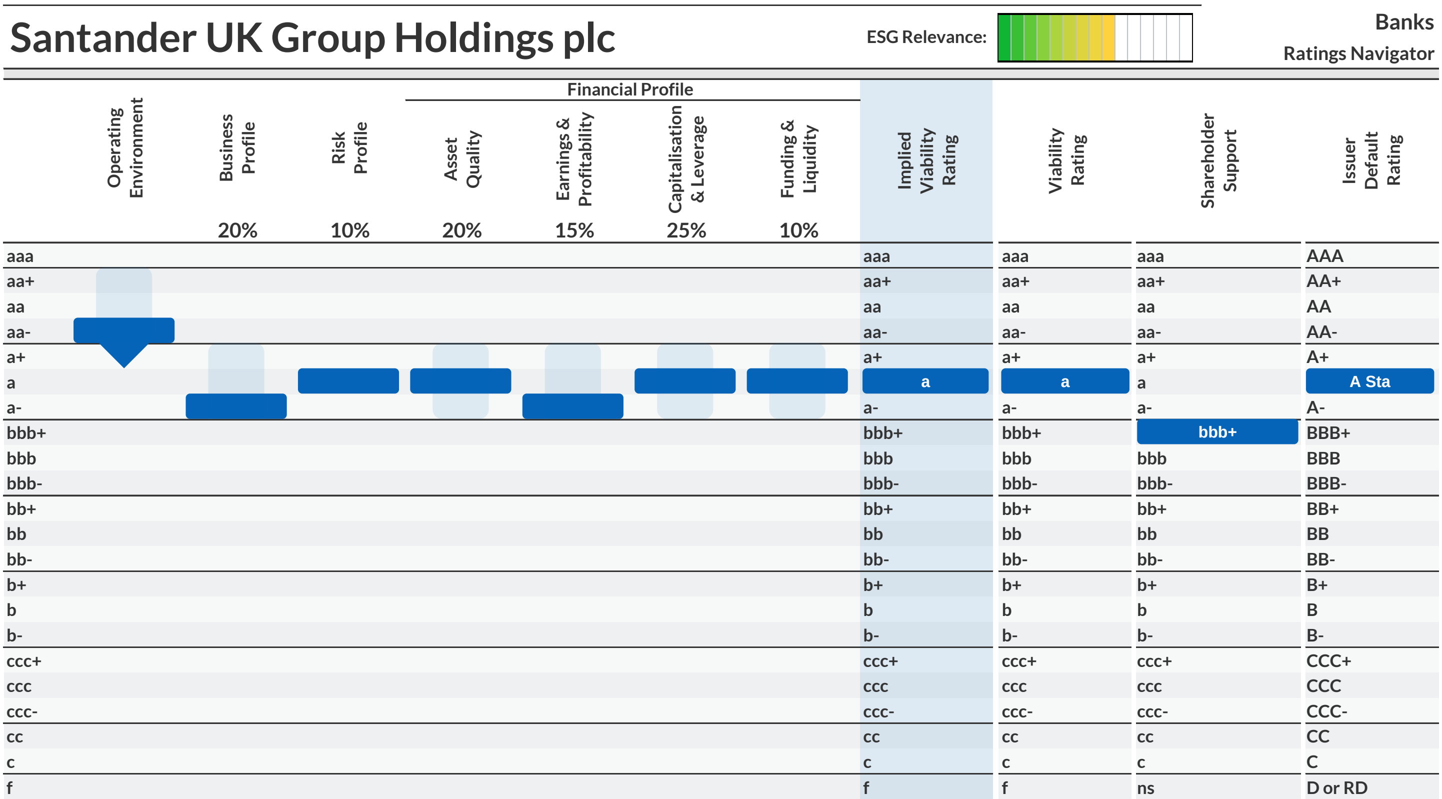
Subordinated Debt and Hybrid Securities

The ratings of all subordinated debt and hybrid securities issued by SGH and San UK are notched down from their VRs, reflecting our expectation of poor recovery prospects.

SGH's additional Tier 1 capital securities are rated four notches below the group's VR to reflect loss severity risk (two notches) and higher risk of non-performance as coupon payments are fully discretionary (two notches). Dated lower Tier 2 legacy instruments are notched down twice from the VR for poor recovery prospects.

Legacy Tier 1 securities issued by San UK are rated four notches below the bank's VR to reflect loss severity risk (two notches) and higher risk of non-performance due to discretionary coupon payments (two notches). Legacy upper Tier 2 securities are rated three notches below San UK's VR (two for loss severity and one for non-performance). Legacy dated Lower Tier 2 instruments are notched down twice from the VR for loss severity.

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 operating environment score of 'aa-' is at the lower end of the range because it is constrained by the UK sovereign rating of 'AA-'/Negative (negative).

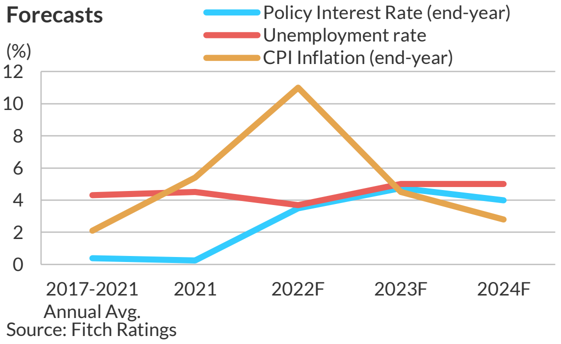
Company Summary and Key Qualitative Factors

Operating Environment

Fitch expects the UK to face a sizeable recession and cut the UK's 2023 GDP growth forecast to negative 1.2% in the December 2022 Global Economic Outlook, compared to the negative 0.2% forecast in September 2022. This reflects significant policy tightening and stubbornly high inflation weighing on household spending and business investment. The negative outlooks on the UK banks' operating environment score mirrors the Outlook on the UK sovereign rating (AA-/Negative) and we expect the sovereign rating to continue to act as a cap on our operating environment score.

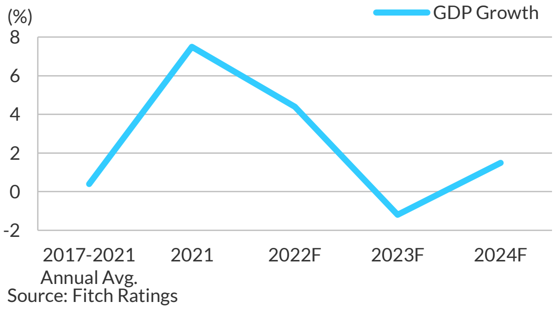
Rising interest rates have provided an uplift to major UK banks' earnings through material widening of net interest margins (NIM) due to their leading low-cost, current account franchises, which have kept pass-through rates low so far. However, Fitch expects an increase in the pass-through rate to customer deposits in 2023, with higher funding costs resulting in a lower uplift to the NIM into the medium term. Furthermore, weaker economic growth and affordability pressures for consumers will likely lead to asset quality deterioration, although impairment charges should remain manageable given a high share of secured loan portfolios (largely mortgage loans) and sound underwriting standards.

United Kingdom - Macroeconomic Forecasts



Source: Fitch Ratings

United Kingdom - GDP Growth (December Global Economic Outlook)



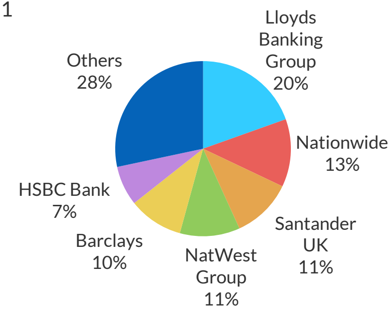
Source: Fitch Ratings

Business Profile

SGH consolidates the UK subsidiaries of international banking group Santander and is the fifth-largest UK retail and commercial bank. It has a strong franchise in retail mortgages (as the third-largest mortgage lender in the UK, with 11% of balances outstanding at end-2021) and in current accounts, where it offers products which, in some cases, have been developed and tested in Santander's other countries. SGH's commercial banking franchise is more modest despite growth efforts.

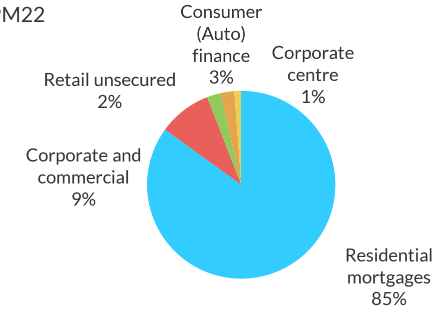
SGH increasingly leverages Santander's global capabilities and expects to benefit from synergies, such as mobile app development, through Santander's One Europe strategy, which involves collaboration between SGH and the group's other European banks including in Poland, and Spain. However, the segments in which SGH competes in the UK – domestic mortgages and current accounts – are highly competitive. The intermediary-driven nature of the UK mortgage market means that even large lenders have limited pricing power. In the UK retail banking market, several traditional and digital challenger banks are targeting growth in current accounts, savings accounts, fee-generative products (such as currency exchange) and wealth management.

UK Mortgage Market Share
End-2021



Source: Fitch Ratings, UK Finance

Loan Book
End-9M22



Source: Fitch Ratings, SGH

Risk Profile

SGH's risk profile has been stable and conservative, with credit exposures largely comprised of low-risk mortgage lending with a lower appetite for consumer lending and buy-to-let mortgages. Risk controls are strong and benefit from the oversight and expertise of the Santander Group. Loan growth of 2.5% in 9M22 is broadly comparable to UK peers. SGH also remains selective in growing its SME exposures, with a focus on the depth of the client relationship rather than simply growing market share. Market risk mainly relates to interest rate risk and is managed well.

Non-financial risk is not differentiated from other UK banks. In December 2022 the Financial Conduct Authority fined SGH GBP108 million for failures in anti-money-laundering (AML) controls in its Business Banking (SME) division between 2012 and 2017. Since then, the group has made significant investments to improve its AML and risk controls, and in our view the risk of further significant failures has reduced.

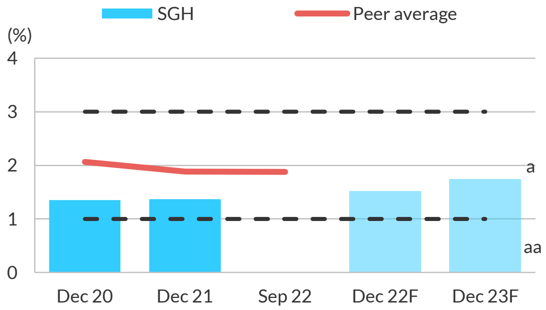
Financial Profile

Asset Quality

Impaired loans decreased to about 1.2% of gross loans at end-9M22 (end-2021: 1.4%), due mainly to corporate loans moving to Stage 2 from Stage 3. While we expect the ratio to increase over the next two years, we expect the four-year average to remain below 2%. The low coverage of impaired loans with loan loss allowances (end-9M22: 36%) reflects the collateralised and low-risk nature of SGH's loan book, which has a high proportion of residential mortgage loans.

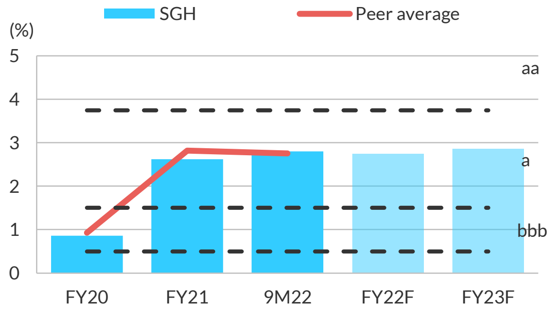
The loan book consists mainly of retail loans, with mortgages representing 85% of customer loans at end-9M22. Retail unsecured loans represented 2% of customer loans and consisted of credit cards and current account overdrafts. Consumer finance, mainly secured auto loans, represented 3%, and the residual value risk of personal contract purchase (PCP) lending in this portfolio has benefitted from strong used car prices in recent years. Corporate and commercial lending made up 9% of loans and consists mainly of loans to trading companies, social housing projects, and commercial real estate, which we expect to come under pressure in the tougher operating environment and with higher interest rates. Business loans included government backed lending (about 1% of total loans) mainly to SMEs under the Bounce Back Loan Scheme, which mitigates risks.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

Net interest income (NII) increased 11% in 9M22 due to the positive impact of base rate increases (NIM +13bp) as well as loan growth. While we expect lower mortgage growth in 4Q22–2023 due to the sharp increase in mortgage rates, SGH's volumes from target customers may be slightly less affected given the group's focus on those moving home and re-mortgagers, rather than first-time buyers.

Non-interest income has decreased in recent years and is not material, with NII representing 89% of gross revenues in 9M22, up from around 80% several years ago before the Corporate & Investment Banking business was transferred to the parent.

Operating costs included higher fraud charges of GBP106 million in 9M22 or double the amount in 9M21. However, spending on the transformation programme decreased about GBP100 million year-on-year. The Fitch-calculated cost/income ratio improved to 53% in 9M22 (2021: 65%) due to stronger earnings from higher rates and loan growth, as well as efficiency savings and lower spending on the transformation programme. While the cost/income ratio may increase in 2023 if loan growth is particularly affected by the economic environment, we still expect cost efficiency to improve over the medium term, in line with the group's strategy and targets.

Loan impairment charges (LICs) increased significantly in 3Q22, with a quarterly charge of GBP138 million bringing the 9M22 charge to GBP256 million (16bp of average loans, annualised). The large LICs in 3Q22 reflected the deterioration in the economic outlook, though no material increase in arrears was observed.

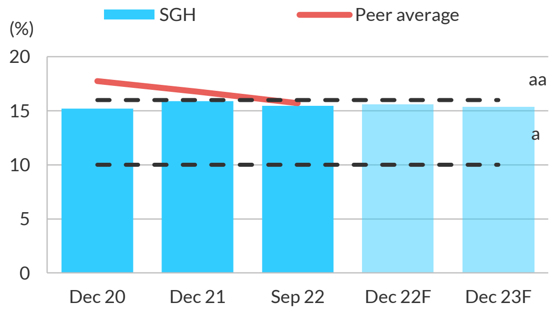
One-off items in 9M22 were more limited than in the past and included GBP7 million of gains realised on the sale of buildings. In 2021 there was a much larger GBP71 million gain, related mainly to the sale of SGH's London head office in preparation for its relocation to Milton Keynes. PPI has been resolved and provided for, and the risk of further costs has diminished. In 1H22 SGH made a GBP25 million provision for refunding charges paid by certain cohorts of mortgage borrowers.

Capital and Leverage

The 15.5% CET1 ratio at end-9M22 remains strong and reflects the low RWA density from SGH's largely low-risk mortgage book. Leverage is SGH's binding regulatory constraint, with GBP5.2 billion of headroom above the 3.25% minimum leverage ratio – this is less than the headroom above the 13.2% total capital requirement (GBP5.4 billion) and above the 7.4% minimum CET1 ratio (GBP5.7 billion). Capital is therefore managed to a UK leverage ratio of about 5% (end-9M22 actual figure: 5.3%).

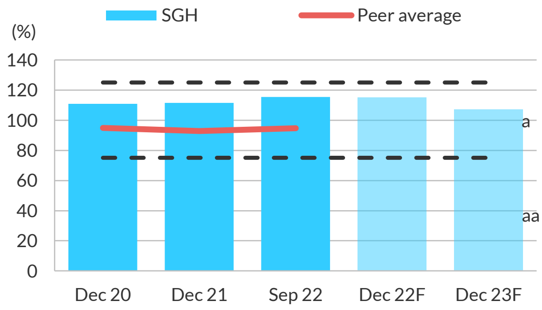
Regulatory changes related to definitions of default and the treatment of software assets resulted in a GBP0.8 billion increase in SGH's RWAs in 9M22. New hybrid IRB models for calculating credit risk RWAs are being adopted by UK banks, and we expect them to be implemented by SGH, though the timing depends on regulatory approval. However, we do not expect the change in models to affect our assessment. Our capitalisation assessment also considers the potential for ordinary support from Santander, which can raise capital from its large pool of investors and downstream it to SGH.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

SGH's funding profile is a relative ratings strength in our VR assessment and is supported by a solid and granular retail deposit base, proven access to wholesale funding markets, and robust contingency funding plans. Similar to Santander's banks in other international markets, SGH is expected by its owner to be self-sufficient in terms of funding, and it has a well-developed debt issuance offering, with a range of capital and funding programmes, including RMBS, covered bonds, unsecured senior and subordinated debt, and structured notes. The group accesses short-term funding through San UK's certificate of deposit and commercial paper programmes and wholesale deposits. In addition to its own funding capabilities, SGH also periodically benefits from ordinary parental support as Banco Santander occasionally purchases SGH's debt issuance.

Liquidity is prudently managed and supported by a large pool of high-quality liquid assets (GBP51 billion; 17% of end-9M22 total assets), resulting in a healthy consolidated liquidity coverage ratio of 168% (San UK: 166%; domestic liquidity subgroup, which includes Santander Financial Services plc (SFS): 161%). SGH also has access to the Bank of England's liquidity facilities, if required.

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 macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition 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.

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. Light-blue columns represent Fitch's forecasts.

Peer average includes Nationwide Building Society (VR: a), Lloyds Banking Group plc (a), NatWest Group plc (a), Virgin Money UK PLC (bbb+), HSBC UK Bank plc (a), Barclays plc (a), Credit Agricole (a+), Banco Santander, S.A. (a-), ING Groep N.V. (a+). Financial year end of Nationwide Building Society is 4 April. Financial year end of Virgin Money UK PLC is 30 September. Latest average uses 1H22 data for Nationwide Building Society, HSBC UK Bank plc; FY22 data for Virgin Money UK PLC.

Financials

Financial Statements

	30 Sep 22		31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
	9 months - 3rd quarter (USDm)	9 months - 3rd quarter (GBPm)	Year end (GBPm)	Year end (GBPm)	Year end (GBPm)	Year end (GBPm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	3,644	3,293	3,997	3,437	3,295	3,606
Net fees and commissions	n.a.	n.a.	280	383	689	749
Other operating income	467	422	194	138	186	188
Total operating income	4,111	3,715	4,471	3,958	4,170	4,543
Operating costs	2,172	1,963	2,919	2,685	2,780	2,577
Pre-impairment operating profit	1,939	1,752	1,552	1,273	1,390	1,966
Loan and other impairment charges	283	256	-233	645	220	153
Operating profit	1,655	1,496	1,785	628	1,170	1,813
Other non-operating items (net)	-8	-7	105	-76	-189	-246
Tax	394	356	485	114	272	446
Net income	1,254	1,133	1,405	438	709	1,121
Other comprehensive income	n.a.	n.a.	465	-252	-336	399
Fitch comprehensive income	1,254	1,133	1,870	186	373	1,520
Summary balance sheet						
Assets						
Gross loans	243,673	220,200	214,910	214,148	208,344	202,439
- Of which impaired	n.a.	n.a.	2,940	2,896	2,289	2,491
Loan loss allowances	n.a.	n.a.	853	1,357	846	820
Net loans	243,673	220,200	214,057	212,791	207,498	201,619
Interbank	n.a.	n.a.	1,420	2,004	2,583	3,515
Derivatives	n.a.	n.a.	1,720	3,451	3,363	5,321
Other securities and earning assets	n.a.	n.a.	19,385	30,105	41,529	47,882
Total earning assets	243,673	220,200	236,582	248,351	254,973	258,337
Cash and due from banks	n.a.	n.a.	50,494	43,537	26,395	24,180
Other assets	82,995	75,000	6,600	7,176	7,120	6,864
Total assets	326,668	295,200	293,676	299,064	288,488	289,381
Liabilities						
Customer deposits	211,028	190,700	192,914	193,088	179,006	173,692
Interbank and other short-term funding	n.a.	n.a.	50,671	42,503	38,465	33,975
Other long-term funding	76,909	69,500	28,373	40,209	47,535	56,032
Trading liabilities and derivatives	n.a.	n.a.	1,822	3,354	3,422	5,770
Total funding and derivatives	287,937	260,200	273,780	279,154	268,428	269,469
Other liabilities	21,357	19,300	3,174	3,321	3,375	3,348
Preference shares and hybrid capital	n.a.	n.a.	2,535	2,820	2,820	2,634
Total equity	17,374	15,700	14,187	13,769	13,865	13,930
Total liabilities and equity	326,668	295,200	293,676	299,064	288,488	289,381
Exchange rate		USD1 = GBP0.90367	USD1 = GBP0.74438	USD1 = GBP0.745156	USD1 = GBP0.76211	USD1 = GBP0.78768

Source: Fitch Ratings, Fitch Solutions, Santander UK Group Holdings plc

Key Ratios

	30 Sep 22	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.8	2.6	0.9	1.6	2.3
Net interest income/average earning assets	2.0	1.8	1.5	1.4	1.5
Non-interest expense/gross revenue	52.8	65.3	67.8	66.7	56.7
Net income/average equity	9.7	9.0	2.9	4.8	7.5
Asset quality					
Impaired loans ratio	n.a.	1.4	1.4	1.1	1.2
Growth in gross loans	2.5	0.4	2.8	2.9	1.0
Loan loss allowances/impaired loans	n.a.	29.0	46.9	37.0	32.9
Loan impairment charges/average gross loans	0.2	-0.1	0.3	0.1	0.1
Capitalisation					
Common equity Tier 1 ratio	15.5	15.9	15.2	14.3	13.2
Fully loaded common equity Tier 1 ratio	15.4	15.9	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	5.3	4.3	4.1	4.2	4.2
Basel leverage ratio	4.4	4.3	4.3	4.3	4.1
Net impaired loans/common equity Tier 1	n.a.	19.2	13.9	13.8	16.1
Funding and liquidity					
Gross loans/customer deposits	115.5	111.4	110.9	116.4	116.6
Liquidity coverage ratio	167.8	166.0	150.0	142.0	164.0
Customer deposits/total non-equity funding	73.3	70.1	69.0	66.4	64.2
Net stable funding ratio	132.2	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Santander UK Group Holdings plc

Support Assessment

Shareholder Support	
Parent IDR	A-
Total Adjustments (notches)	-1
Shareholder Support Rating	bbb+
Shareholder ability to support	
Shareholder Rating	A-/ Stable
Shareholder regulation	1 Notch
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	1 Notch
Reputational risk	Equalised
Integration	1 Notch
Support record	1 Notch
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

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

The 'bbb+' Shareholder Support Ratings (SSR) of SGH and San UK are one notch below Santander's Long-Term IDR because we view Santander's ability to provide support as constrained by the UK entities' large relative size as well as by possible regulatory restrictions. In our view, Santander has a strong propensity to support both entities, given the strategic importance of the UK as well as the high reputation risk Santander would face in the case of a default by its UK entities.

SFS's 'a' SSR is in line with SGH's IDR and reflects SGH's strong propensity to support SFS, given SFS's role in the group, and a strong ability to provide support, given SFS's small size.

Subsidiaries and Affiliates

SFS

Fitch does not assign a VR to SFS as its business model and strong reliance on SGH prevent a meaningful standalone analysis of the entity. SFS's IDRs are based on support from SGH. SFS's 'a' SSR is in line with SGH's IDR and reflects SGH's strong propensity to support SFS, given SFS's role in the group, and a strong ability to provide support, given SFS's small size. We uplift SFS's IDR one notch above SGH's IDR because we expect that the group's QJD and equity will protect SFS's third-party senior creditors should the group fail.

SFS's ratings are primarily sensitive to changes in SGH's IDRs. They are also sensitive to a reduction in SGH's propensity to support SFS, which we do not expect.

Environmental, Social and Governance Considerations

FitchRatings **Santander UK Group Holdings plc**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Santander UK Group Holdings plc has 5 ESG potential rating drivers

- Santander UK Group Holdings 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?

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.

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.