FitchRatings

Banks
Bank Holding Companies
United Kingdom

Santander UK Group Holdings plc

Key Rating Drivers

Low-Risk Business Model: Santander UK Group Holding's (SGH) Viability Rating (VR) is equalised with that of Santander UK plc (San UK; A+/Stable), reflecting SGH's role as a holding company and its low double leverage. SGH and San UK's VRs are based on SGH's consolidated financial profile and reflect the group's low-risk business model, conservative risk appetite, healthy asset quality, strong capitalisation and stable funding and liquidity profiles. They also reflect a less-diversified business model than larger UK peers.

Tough Economic Backdrop: We expect macroeconomic pressures to weigh on UK banks' performance in 2024, given weak economic growth (Fitch forecasts a mild recession in 4Q23-2Q24), higher interest rates (with the base rate only falling in 3Q24) and rising unemployment. Nevertheless, we expect major UK banks to retain strong loss-absorption, capital and liquidity buffers against manageable weakening in profitability and asset quality. The negative outlook on the UK operating environment score mirrors that on the UK sovereign.

Strong Franchise; Undiversified Revenues: SGH's business profile benefits from its strong franchise in UK mortgage lending and retail deposits, which support a low-risk business model. SGH's business model diversification is narrower than most major UK banks peers given its focus on mortgage lending and reliance on net interest income.

Conservative Risk Profile: SGH's risk profile is underpinned by its conservative appetite for credit risk as reflected in a high share of low-risk mortgage lending (85% of loans at end-3Q23; 91% owner occupied), at low loan-to-value (mortgage stock average: 51%). Consumer lending (5%) is largely focused on secured auto financing and unsecured consumer exposures are low. Corporate, commercial and business lending (10% of loans) is diversified by sector.

Loan Arrears to Rise: We expect SGH's impaired loans ratio (end-9M23: 1.5%) to deteriorate toward but not exceed 2% over the next two years, given materially higher interest rates and low loan growth. Asset quality will continue to underpinned by the large, low-risk mortgage portfolio. Loan impairment charges (9M23: 13bp of average gross loans) are likely to stay higher than in recent years but will remain manageable given the largely secured loan book.

Profitability to Soften: We expect SGH's operating profit/risk-weighted assets ratio (RWAs; 3.3% in 9M23) to remain strong but soften towards about 2.5% in 2024-2025. This reflects our expectations that SGH's net interest margin will contract following peak interest rates, higher deposit costs and tight mortgage loan margins, but will also be supported by structural hedge income. SGH's largely secured loan book should mean LICs are manageable. We expect SGH's cost efficiency to be supported by recent years of transformation investments.

Strong Capital: SGH's common equity Tier 1 (CET1) ratio increased in 9M23 to 16.0% (end-2022: 15.2%) due to loan book contraction and strong profit generation. Capital is managed to about a 5% UK leverage ratio (end-9M23 actual: 5.2%), given the low RWAs density of the loan book. We expect excess capital above management buffers to be gradually distributed.

Strong Funding and Liquidity: SGH is largely deposit funded (76% of funding at end-9M23) and the loans/deposits ratio improved to 110% at end-9M23 (end-2022: 114%), primarily given loan contraction. SGH has a strong retail deposit franchise in the UK, and a high 70% of deposits are insured. High quality liquid assets represented a high 27% of customer deposits at end-9M23. SGH's funding stability is supported by proven wholesale-funding access, ordinary support from its parent and access to the Bank of England's liquidity facilities, if needed.

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 2023)

Related Research

Fitch Affirms Santander UK Group Holdings at 'A'; Outlook Stable (December 2023)

Major UK Banks Resilient to Economic Backdrop; Underpinned by Strong Buffers (December 2023)

Major UK Banks' Profitability Expected to Weaken as NIMs Peak, LICs Rise (November 2023)

Fitch Affirms United Kingdom at 'AA-'; Outlook Negative (December 2023)

Fitch Affirms Santander at 'A-'; Outlook Stable (September 2023)

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Rating Sensitivities

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

SGH would retain some rating headroom in a scenario where the UK banks' operating environment score was downgraded to 'a+' from 'aa-', as reflected in the Stable Outlook on the Long-Term IDR. However, the ratings could be downgraded if there was a severe setback to the UK operating environment beyond our expectations, and we expected the impaired loans ratio to increase above 3% without a clear path to reduction, operating profit/RWAs fell sustainably below 1.5%, and the CET1 ratio went below 13% on a sustained basis.

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

An upgrade of the VR is unlikely given SGH's relatively undiversified business model compared with higher-rated peers. An upgrade is also unlikely in the near term due to the weaker macroeconomic outlook in the UK and the negative outlooks on the operating environment score and the UK sovereign. An upgrade would require a much-improved operating environment, a material strengthening in SGH's business profile and business model diversification, accompanied by solid financial metrics.

Other Debt and Issuer Ratings

Rating level	SGH	San UK	Santander Financial Services plc (SFS)
Long-Term IDR	A	A+	A+
Short-Term IDR	F1	F1	F1
Viability Rating	a	A	n.a.
Shareholder Support Rating (SSR)	bbb+	bbb+	a
Derivative Counterparty Rating (DCR)	n.a.	A+(dcr)	n.a.
Long- and Short-Term Senior Unsecured Debt/Programmes	A/F1	A+/F1	n.a.
Tier 2 Subordinated Debt	BBB+	BBB+	n.a.
Legacy Upper Tier 2	n.a.	BBB	n.a.
Non-Innovative Tier 1 Notes	n.a.	BBB-	n.a.
Additional Tier 1 Debt	BBB-	n.a.	n.a.

Source: Fitch Ratings

San UK's and SFS's Long-Term IDRs are one notch above SGH's given the single-point-of-entry UK resolution plan envisages the operating companies' third-party senior creditors being protected in a bank failure by sufficient qualifying junior debt and equity raised by SGH.

The Short-Term 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.

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

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

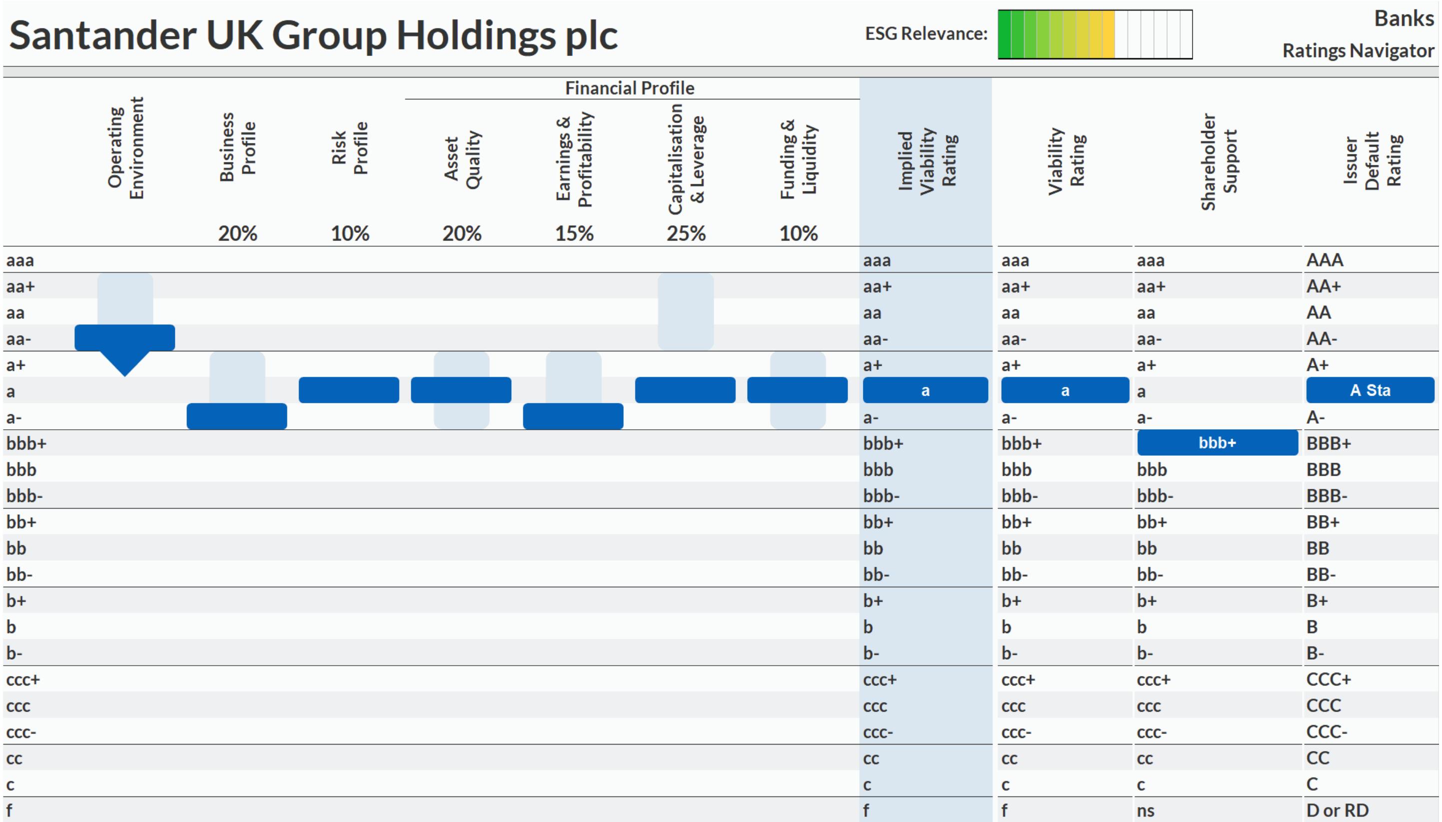
The ratings of all subordinated debt and hybrid securities issued by SGH and San UK are notched down from their VRs, reflecting our expectation of below-average recoveries.

SGH's subordinated Tier 2 instruments are notched down twice from the VR to reflect poor recovery prospects in case of failure. Additional Tier 1 capital securities are rated four notches below the group's VR to reflect above-average loss severity risk (two notches) and higher risk of non-performance as coupon payments are fully discretionary (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.

Legacy Tier 1 securities issued by San UK are rated four notches below the bank's VR to reflect higher loss severity risk (two notches) and higher risk of non-performance due to discretionary coupon payments (two notches).

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).

The capitalisation and leverage score of 'a' has been assigned below the 'aa' category implied score due to the following adjustment reason(s): Historical and future metrics (negative)

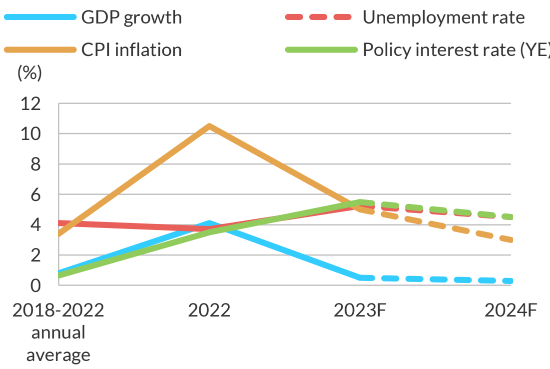
Company Summary and Key Qualitative Factors

Operating Environment

Fitch projects UK GDP growth of 0.5% in 2023, and that a mild recession in 4Q23-2Q24 will pull down annual growth to 0.3% in 2024 before recovering to 1.8% in 2025. Government policies continue to focus on addressing labour market and investment constraints on potential growth, but there is a high degree of uncertainty regarding the actual potential increase in labour supply and long-term growth prospects. Annual inflation has eased reflecting lower energy and food prices, but core inflation remains relatively high signalling strong domestic demand pressures and a tight labour market. The Bank of England has lifted its main policy rate to 5.25% and we expect the monetary authority to maintain rates at this level at least until 3Q24 given the still high growth in wages due to strong underlying inflationary pressures.

We believe the performance of the UK banks peaked in 2023 as higher interest rates will result in moderately higher LICs and funding costs in 2024. NIMs will contract in 2024 given the banks' increasing share of more expensive, term deposits, refinancing of wholesale funding at higher cost and competitive pressure on new mortgage lending. Nevertheless, interest rates are likely to stay higher for longer than initially expected, which should support revenues. We expect cost growth to be moderate and manageable given easing inflation.

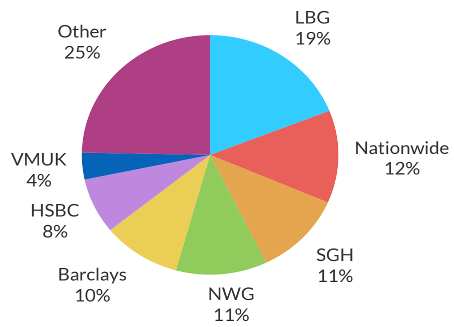
Tough Economic Backdrop



F - Forecast. Source: Fitch Ratings

Market Share (Mortgage Loans)

Mortgages outstanding, end-2022 (%)



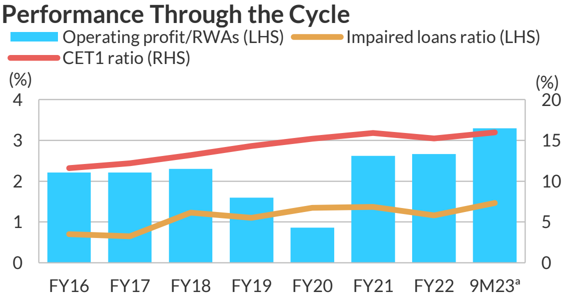
Note: Market shares relate to UK mortgage lending
Source: Fitch Ratings, UK Finance

Business Profile

SGH is a leading retail and commercial UK focused bank and consolidates the UK subsidiaries of international banking group Banco Santander, S.A. (Santander: A-/Stable). SGH has a strong franchise in retail mortgages (end-3Q23: 11% market share of balances outstanding) and in current accounts, however these segments are highly competitive, given growth plans of several traditional and challenger banks. The intermediary-driven nature of the UK mortgage market means that even large lenders have limited pricing power. SGH's commercial banking franchise is more modest despite growth efforts.

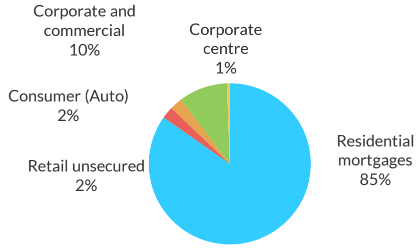
Business diversification has decreased in recent years following the transfer of certain operations to the parent's London branch, largely as a result of UK ringfencing requirements, and the sale of its auto finance joint venture to other Santander entities in Europe. SGH increasingly leverages Santander's 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.

Performance Through the Cycle



a Annualised
Source: Fitch Ratings, Fitch Solutions, SanUK

Loans Breakdown



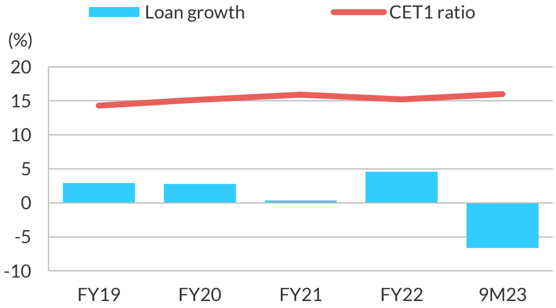
Source: Fitch Ratings, SGH

Risk Profile

SGH's risk profile is conservative and broadly stable, with credit exposures largely comprised of low-risk mortgage lending with a lower appetite for riskier buy-to-let (BTL) mortgages (9% of mortgage loans at end-3Q23). SGH does have appetite to increase SME and corporate and commercial lending, but remains selective in its approach. Any growth is unsecured consumer loans (2% of gross loans at end-3Q23) would be from a low base. Risk controls are strong and benefit from the oversight and expertise of the Santander Group.

Loans contracted by 7% in 9M23, largely in mortgage lending (down GBP10 billion), reflecting balance sheet optimisation amid a slower housing market, higher funding costs and tight mortgage margins. We expect loan growth to continue be low in 2024 as interest rates stay higher for longer and deposit costs elevated. Market risk mainly relates to interest rate risk and is managed well. SGH has invested heavily to improve its anti-money laundering and risk controls.

Loan Growth



Source: Fitch Ratings, Fitch Solutions, SGH

Financial Profile

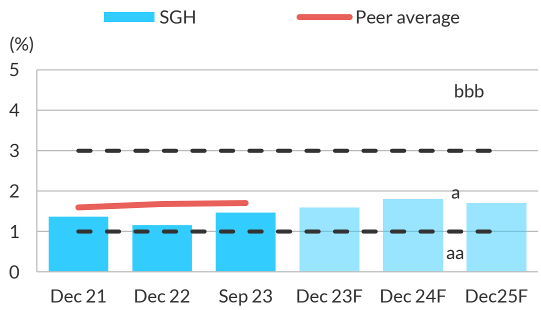
Asset Quality

Fitch expects the four-year average impaired loans ratio to remain below 2% over the next two years given SGH's sound underwriting standards largely to low-risk mortgage loans. The low coverage of impaired loans with loan loss allowances (end-9M23: 34%) reflects the collateralised nature of SGH's loan book, which has a high proportion of residential mortgage loans. Overall, the loan book is at least 86% secured including mortgages and auto loans.

By portfolio, Stage 3 loans primarily increased in mortgage lending (1.2% at end-3Q23; up from 1.0% at end-2022) and corporate and commercial lending (4.2%; up from 3.1%). Stage 2 loans went up to 9.1% of loans at end-9M23 (end-2022: 8.4%) largely due to revised macroeconomic forecasts driving a rise in the probability of default, with a very low share in arrears. Most notable increases in Stage 2 loans were in unsecured retail loans and corporate and commercial loans.

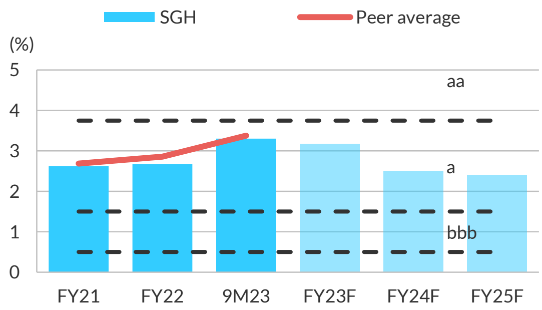
We expect arrears to tick up further in mortgage lending given materially higher interest rates (with about GBP50 billion of mortgage loans maturing before end-2024), but from a low level and healthy LTVs mean LICs will be manageable. We expect the non-performance to increase most in corporate, commercial and business loans and unsecured consumer finance. Commercial real estate loans (2% of loans) are performing well (Stage 3 ratio: 1.2% at end-2Q23). Business loans included government-backed lending (about 0.9% of total loans), mainly to SMEs under the Bounce Back Loan Scheme, which mitigates risks.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

Profitability should remain strong into 2025, despite a softening NIM, and we expect the operating profit/RWAs ratio to trend towards about 2.5% over the rating horizon reflecting high interest rates, structural hedge income, manageable LICs and improved cost efficiency.

Net interest income (NII) increased 8% in 9M23 (year-on-year) due to the positive effect of base rate increases, with the NIM widening by 19bp. This was driven by strong deposit margins on SGH's large current account deposit base and by higher structural hedge income as it is re-invested at higher rates. SGH proactively managed its NIM by optimising funding costs as it shrunk the mortgage loans book, where margins are tight, and reduced funding needs.

Revenues are undiversified. Non-interest income has decreased over recent years and is not material, with NII representing 89% of gross revenue in 9M23, up from about 80% several years ago before corporate and investment banking was transferred to the parent. Operating costs have been affected by inflationary pressures, but are supported by SGH's transformation programme investments and efficiency savings. The Fitch-calculated cost/income ratio improved to 51% in 9M23 (9M22: 52%; 2021:65%), although this was also the result of income growth from higher NII.

LICs/average gross loans of 13bp in 9M23 (2022: 13bp) are higher than the 2017-2019 average, reflecting weak macroeconomic conditions and the softer housing market outlook. We expect LICs to remain at similar levels in 2024 on higher arrears and soft housing market dynamics, before falling to normalised levels in 2025. The average LICs/average gross loans ratio between 2017-9M23 of 11bp compares well with that of large banks reflecting the largely secured nature of loans.

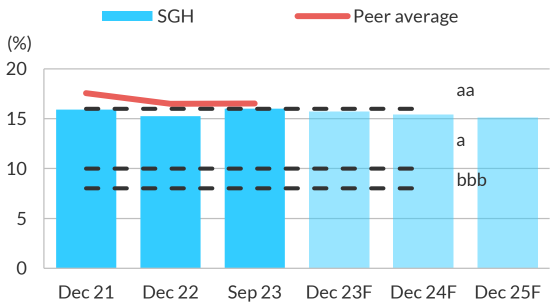
Capital and Leverage

The 16.0% CET1 capital ratio at end-9M23 remains strong and higher than usual reflecting the loan book contraction in 9M23 and the low RWA density, given SGH's large low-risk mortgage book. New hybrid IRB models for calculating credit risk RWAs are being adopted by UK banks, and we expect them to be implemented by SGH and lead to higher

RWAs, 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.

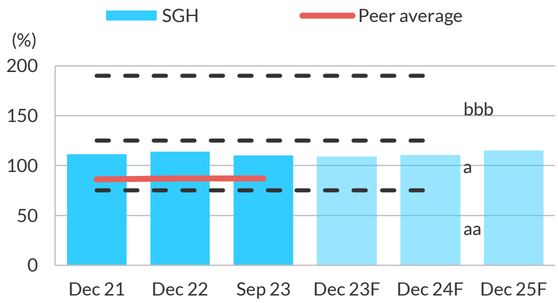
SGH is fully compliant with end-state minimum requirement for own funds and eligible liabilities (MREL) set by resolution authorities to ensure that a bank maintains at all times sufficient. At end-3Q23, SGH's MREL ratio was 38.7%, comfortably higher than its 33% requirements (including a 1% systemic buffer). MREL is mainly comprising senior HoldCo instruments (17.2% of RWAs), CET1 (16.0%) and, to a lesser extent, AT1 (3.1%) and Tier 2 (2.3%).

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Our funding and liquidity profile assessment for SGH reflects its 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.

Liquidity is prudently managed and supported by a large pool of high-quality liquid assets (GBP51 billion; 18% of end-9M23 total assets), resulting in a healthy consolidated liquidity coverage ratio of 155%. 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 macroeconomic 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 Lloyds Banking Group plc (VR: a), NatWest Group plc (a), Nationwide Building Society (a), Barclays plc (a), HSBC Holdings plc (a+), Virgin Money UK PLC (bbb+). Financial year end of Nationwide Building Society is 04-Apr. Financial year end of Virgin Money UK PLC is 30-Sep. Latest average uses 1H23 data for Nationwide Building Society; FY23 data for Virgin Money UK PLC.

Financials

Summary Financials

	30 September 2023		31 December2022	31 December 2021	31 December 2020
	9 months - 3rd quarter	9 months - 3rd quarter	Year end	Year end	Year end
	(USDm)	(GBPm)	(GBPm)	(GBPm)	(GBPm)
	Unaudited	Unaudited	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	4,368	3,561.0	4,472.0	3,997.0	3,437.0
Net fees and commissions	n.a.	n.a.	324.0	280.0	383.0
Other operating income	520	424.0	217.0	194.0	138.0
Total operating income	4,889	3,985.0	5,013.0	4,471.0	3,958.0
Operating costs	2,515	2,050.0	2,791.0	2,919.0	2,685.0
Pre-impairment operating profit	2,374	1,935.0	2,222.0	1,552.0	1,273.0
Loan and other impairment charges	250	204.0	321.0	-233.0	645.0
Operating profit	2,124	1,731.0	1,901.0	1,785.0	628.0
Other non-operating items (net)	n.a.	n.a.	-7.0	105.0	-76.0
Tax	567	462.0	471.0	485.0	114.0
Net income	1,557	1,269.0	1,423.0	1,405.0	438.0
Other comprehensive income	n.a.	n.a.	-1,682.0	465.0	-252.0
Fitch comprehensive income	1,557	1,269.0	-259.0	1,870.0	186.0
Summary balance sheet					
Assets					
Gross loans	257,451	209,864.0	225,134.0	214,910.0	214,148.0
- Of which impaired	3,791	3,090.2	2,600.0	2,940.0	2,896.0
Loan loss allowances	1,305	1,064.0	955.0	853.0	1,357.0
Net loans	256,145	208,800.0	224,179.0	214,057.0	212,791.0
Interbank	n.a.	n.a.	1,105.0	1,420.0	2,004.0
Derivatives	n.a.	n.a.	-215.0	1,720.0	3,451.0
Other securities and earning assets	n.a.	n.a.	13,875.0	19,385.0	30,105.0
Total earning assets	256,145	208,800.0	238,944.0	236,582.0	248,351.0
Cash and due from banks	n.a.	n.a.	46,635.0	50,494.0	43,537.0
Other assets	93,233	76,000.0	6,664.0	6,600.0	7,176.0
Total assets	349,378	284,800.0	292,243.0	293,676.0	299,064.0
Liabilities					
Customer deposits	233,696	190,500.0	197,313.0	192,914.0	193,088.0
Interbank and other short-term funding	n.a.	n.a.	41,250.0	50,671.0	42,503.0
Other long-term funding	72,869	59,400.0	33,683.0	28,373.0	40,209.0
Trading liabilities and derivatives	n.a.	n.a.	1,906.0	1,822.0	3,354.0
Total funding and derivatives	306,565	249,900.0	274,152.0	273,780.0	279,154.0
Other liabilities	24,167	19,700.0	3,036.0	3,174.0	3,321.0
Preference shares and hybrid capital	n.a.	n.a.	2,540.0	2,535.0	2,820.0
Total equity	18,647	15,200.0	12,515.0	14,187.0	13,769.0
Total liabilities and equity	349,378	284,800.0	292,243.0	293,676.0	299,064.0
Exchange rate		USD1 = GBP0.815162	USD1 = GBP0.828638	USD1 = GBP0.74438	USD1 = GBP0.745156

Source: Fitch Ratings

Key Ratios

	30 September 2023	31 December 2022	31 December 2021	31 December 2020
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.3	2.7	2.6	0.9
Net interest income/average earning assets	2.2	2.0	1.8	1.5
Non-interest expense/gross revenue	51.4	55.7	65.3	67.8
Net income/average equity	11.7	9.5	9.0	2.9
Asset quality				
Impaired loans ratio	1.5	1.2	1.4	1.4
Growth in gross loans	-6.8	4.8	0.4	2.8
Loan loss allowances/impaired loans	34.4	36.7	29.0	46.9
Loan impairment charges/average gross loans	0.1	0.1	-0.1	0.3
Capitalisation				
Common equity Tier 1 ratio	16.0	15.2	15.9	15.2
Tangible common equity/tangible assets	5.3	3.8	4.3	4.1
Basel leverage ratio	n.a.	4.4	4.3	4.3
Net impaired loans/common equity Tier 1	18.1	15.2	19.2	13.9
Funding and liquidity				
Gross loans/customer deposits	110.2	114.1	111.4	110.9
Gross loans/customer deposits + covered bonds	102.1	105.9	104.1	100.8
Liquidity coverage ratio	155.0	162.8	166.0	150.0
Customer deposits/total non-equity funding	76.2	71.6	70.1	69.0

Source: Fitch Ratings

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. 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

Fitch does not assign a VR to SFS as its business model and strong reliance on SGH prevent a meaningful standalfone 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 rate SFS's Long-Term IDR one notch above SGH's because we expect that the group's junior debt buffers will be available to 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 material reduction in SGH's propensity to support SFS.

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.

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 https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.