FitchRatings

Banks
Bank Holding Companies
United Kingdom

# Santander UK Group Holdings plc

## Key Rating Drivers

**Solid, but Less-Diversified Business Profile:** Santander UK Group Holdings plc (SGH) operates a stable and low-risk business model, with a conservative risk appetite, low impaired loans, adequate capitalisation, and a stable funding and liquidity profile. It has a solid retail banking franchise, but its business model is less diversified than larger peers', which weakens earnings and fee-generating business.

**Healthy Asset Quality:** Asset quality is healthy and the group's 1.4% impaired loans ratio at end-2021 compared well with peers'. Asset quality has benefited from significant government support to borrowers since the start of the pandemic. Fitch Ratings expects SGH's impaired loans ratio to increase moderately as the support for the economy winds down, with impaired loans remaining below 2% of gross loans over the next two years.

**Recovering Profitability:** In 2021, SGH released some of the large loan-loss allowances it raised in 2020 given the better outlook for the UK economy. The negative impairment charge resulted in operating profit/risk-weighted assets (RWAs) recovering strongly to 2.7% in 2021 from a low of 0.9% in 2020. We expect the four-year average to remain above 1.5% over the next two years and therefore upgraded our Profitability score to 'a-' from 'bbb+'.

**Resilient Capitalisation:** The common equity Tier 1 (CET1) ratio rose by 70bp in 2021 to 15.9% at end-2021. It benefited from the transfer of Corporate & Investment Bank (CIB) assets to Santander's London branch and the sale of the group's 50% shareholding in PSA Finance UK Limited, both of which reduced RWAs. We expect capital ratios to fall through the upstream of dividends to its parent given that capital is managed to about a 5% UK leverage ratio (end-2021: 5.2%) but for capitalisation to remain adequate for SGH's risk profile.

**Stable Funding and Liquidity:** SGH benefits from a large base of low-cost current account deposits, which help the group to maintain margins on its low-risk loan book. It also benefits from proven independent access to wholesale-funding markets and our assumption of ordinary support from its ultimate owner Banco Santander, S.A. (A-/Stable). The bank manages liquidity prudently and benefits from access to the Bank of England's liquidity schemes, if necessary.

**Standalone Strength Drives Ratings:** SGH is the holding company for Banco Santander's UK entities, which includes the main operating bank, Santander UK plc (San UK; A+/Stable). Fitch believes Banco Santander has a strong propensity to support its UK subsidiaries given their strategic importance as well as reputational risk. However, its ability to provide support is constrained by the subsidiaries' large size relative to its own equity and by possible regulatory restrictions.

## Rating Sensitivities

**Macroeconomic Environment:** SGH's ratings are primarily sensitive to changes in its Viability Rating (VR), which could be downgraded if economic disruptions are worse than our assumptions. A downgrade could be triggered if we expect the Stage 3 loan ratio to increase above 3% without a clear path to reduction.

**Business Model Diversification:** An upgrade of the VR is unlikely within the rating horizon given our current assessment of the key rating drivers. However, over the longer term the ratings could be upgraded if SGH's business model diversifies to become comparable to those of higher-rated UK peers, resulting in higher and more sustainable earnings.

## Ratings

| | |
|---|---|
| **Foreign Currency** | |
| Long-Term IDR | A |
| Short-Term IDR | F1 |
| Viability Rating | a |
| Shareholder Support Rating | bbb+ |
| **Sovereign Risk** | |
| Long-Term Foreign- and Local-Currency IDR | AA- |
| Country Ceiling | AAA |
| **Outlooks** | |
| Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Foreign- and Local-Currency IDR | Stable |

## Applicable Criteria

Bank Rating Criteria (November 2021)

## Related Research

Fitch Affirms Santander UK Group Holdings at 'A'/Stable (January 2022)

Global Economic Outlook (December 2021)

Fitch Revises Santander UK Group Holdings' Outlook to Stable; Affirms at 'A' (July 2021)

## Analysts


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## Related Issuer and Debt Class Ratings

| Rating level | SGH | San UK | Santander Financial Services plc |
|---|---|---|---|
| Long-Term IDR | A/Stable | A+/Stable | A+/Stable |
| 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 | 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

San UK's Long-Term IDR is one notch above the bank's VR. We consider that the qualifying junior debt (QJD) and equity buffer at San UK, built up under the resolution plan for the single-point-of-entry UK resolution group headed by SGH, provides sufficient protection for third-party senior creditors in a bank failure. The bank reported a QJD buffer equivalent to 16.4% of RWAs at end-3Q21 (excluding SGH senior debt that is not eligible for minimum requirement for eligible liabilities (MREL) or has a call date in 2022). The Short-Term IDRs of 'F1' for SGH and its rated subsidiaries are the lower of two options mapping to the respective Long-Term IDRs, as our assessment of the group's funding and liquidity profile does not warrant a higher Short-Term IDR.

Santander Finance Services plc's (SFS) Long-Term IDR is based on the support from SGH. We uplift SFS's IDR one notch above SGH's because we expect that the group's QJD and equity will protect SFS's third-party senior creditors should the group fail. San UK's Derivative Counterparty Rating (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.

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

The ratings of all subordinated debt and hybrid securities issued by SGH and San UK are notched down from their VRs.

SGH's 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 lower Tier 2 instruments are notched down twice from the VR for above-average 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).

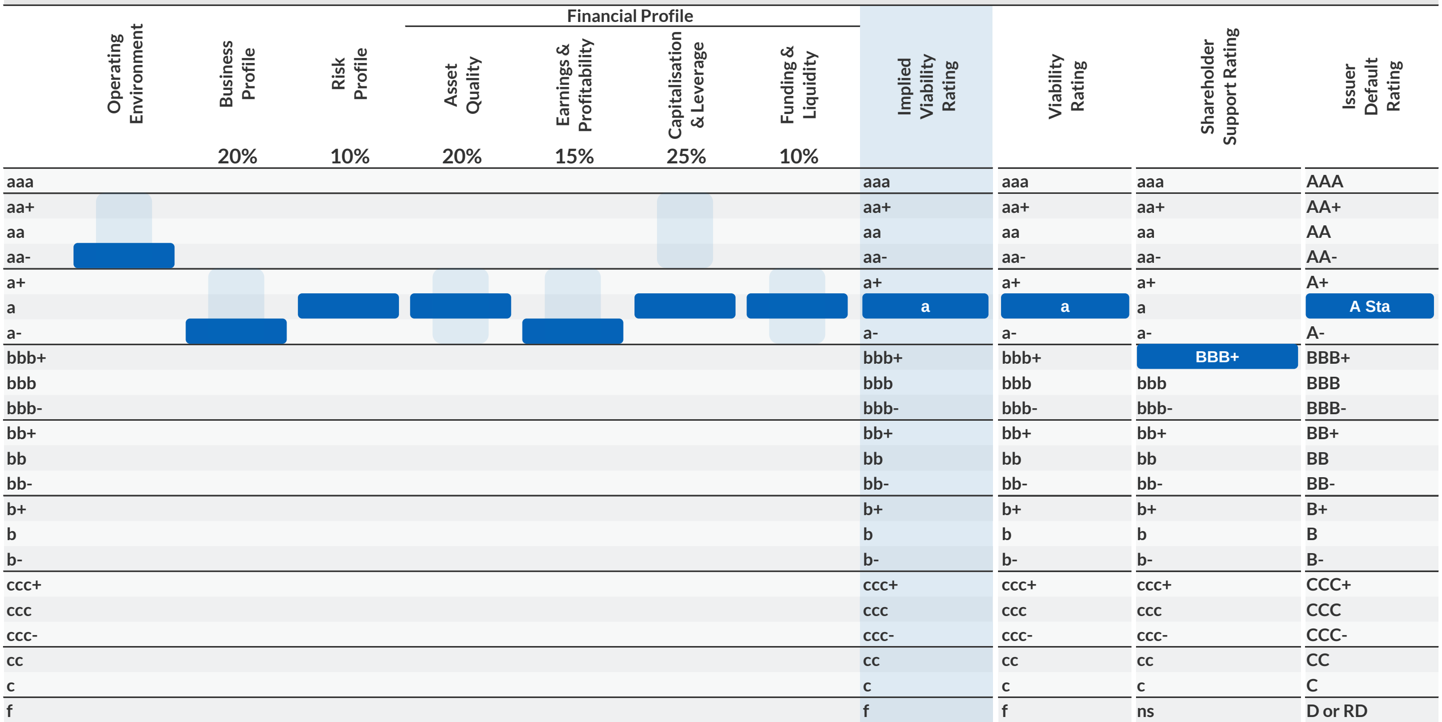
Legacy upper Tier 2 securities are rated three notches below San UK's VR (two for loss severity and one for non-performance). Legacy lower Tier 2 instruments are notched down twice from the VR for loss severity.

## Ratings Navigator

# Santander UK Group Holdings plc

ESG Relevance:

**Banks**
**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.

Higher influence   Moderate influence

The capitalisation and leverage score of 'a' has been assigned below the implied 'aa' score because we expect the CET1 ratio to decrease to within the implied 'a' range.

## Company Summary

### Solid Retail Banking Franchise

SGH consolidates the UK subsidiaries of international banking group Banco Santander. It is the fifth-largest UK retail and commercial bank by total assets. SGH has a strong franchise in retail mortgages (third largest by balances outstanding at end-2020; 11% market share) and current accounts. SGH's franchise in commercial banking is more modest, despite previous efforts to gain market share from the larger banks that dominate the UK commercial banking market.

SGH increasingly leverages the wider group's capabilities and expects to benefit from greater scale and synergies in developing products – e.g. mobile app development. However, the markets for SGH's main products – 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 (e.g. currency exchange) and wealth management.

### Low-Risk Business Model

We view SGH's business model as stable and low risk but also less diversified than its larger UK peers, with over 90% of operating profit coming from retail banking, including consumer lending (auto finance, credit cards and overdrafts). Diversification reduced further in 2020 and 2021 following the transfer of SGH's largest corporate clients to Banco Santander's London branch, partly done due to meet ringfencing requirements but also due to SGH's evolving strategy.

San UK is a ringfenced bank and the main operating entity, but the group also has a smaller bank, SFS, with branches in Jersey and the Isle of Man. SFS sits outside the ringfence given that the location of most of its activities is outside the European Economic Area.

### Conservative Underwriting Standards

SGH's underwriting standards have been stable and are generally conservative, with a low appetite for consumer lending and buy-to-let (BTL) mortgages and a focus on the low loan/value (LTV) segment of prime, owner-occupied mortgages. First-time buyers represented only 20% of new lending in 2021 and SGH has no appetite for subprime or second-charge loans. While SGH has some appetite to grow the proportion of BTL mortgages, which offer higher returns, these are subject to lower maximum LTVs.

The group has an above-average exposure to owner-occupied, interest-only mortgages (23% of total mortgages at end-1H21), but this will slowly decrease as it is not an area of focus for new lending. Risk is mitigated through low maximum LTVs, which are typically 50% except for borrowers with very high incomes.

Commercial loans, including to SMEs, represented only 11% of customer loans at end-2021, of which over 40% benefited from a government guarantee (e.g. Bounce Back Loan Scheme) or was to the social housing sector, which historically has suffered no credit losses.

Auto finance (2% of customer loans) covers a range of products for the purchase of new and used cars, motorcycles and caravans for both individuals and businesses (e.g. car dealerships). About 45% of auto lending is via personal contract purchase (PCP), which exposes SGH to residual value risk. This risk reduced significantly during the pandemic as a global shortage of new cars significantly raised used car values.

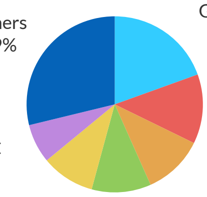
Unsecured consumer credit (2% of customer loans) consists of personal loans, credit cards and overdrafts. Credit cards are typically issued to more creditworthy customers as part of the group's '123' proposition, which encourages current account customers to hold multiple products. These customers tend to use their cards to earn rewards rather than for borrowing.

### Prudent Growth and Good Risk Controls

Average loan growth is low due to the transfer of some commercial loans to Banco Santander's London branch in recent years. The transfer of corporate banking activities also reduced SGH's exposure to traded market risk. Remaining market risk consists mainly of interest-rate risk, which is appropriately monitored and managed within risk limits using derivatives. Risks related to the funding position of SGH's pension fund have reduced in recent years due to an

### UK Mortgage Market Share

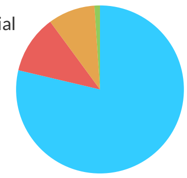
End-2020




Source: Fitch Ratings, UK Finance

### Operating Income

2021




Source: Fitch Ratings, SGH

### Loan Book Split (End-2021)

| | |
|---|---|
| Residential mortgages (%) | 84 |
| Auto finance (%) | 2 |
| Social housing (%) | 2 |
| Covid-19 most-at-risk corporates identified by SGH (%) | 2 |
| Retail unsecured (%) | 2 |
| Coronavirus government-guaranteed loans (%) | 4 |
| Other corporate loans (%) | 3 |

Source: Fitch Ratings, SGH

improvement in the funding position (GBP971 million surplus at end-1H21) as well as the increased use of hedging strategies to reduce the impact of the pension fund on SGH's capitalisation.

Foreign-exchange risk is not significant given the bank's domestically focused operations, and foreign-currency wholesale funding is hedged. In our view, the overall risk monitoring and management framework is good, and benefits from the best practices and oversight of Banco Santander.

## Summary Financials and Key Ratios

| | 31 Dec 21 | | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 |
|---|---|---|---|---|---|
| | Year end (USDm) Unaudited | Year end (GBPm) Unaudited | Year end (GBPm) Audited - unqualified | Year end (GBPm) Audited - unqualified | Year end (GBPm) Audited - unqualified |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 5,370 | 3,997 | 3,437 | 3,295 | 3,606 |
| Net fees and commissions | n.a. | n.a. | 383 | 689 | 749 |
| Other operating income | 735 | 547 | 138 | 186 | 188 |
| Total operating income | 6,104 | 4,544 | 3,958 | 4,170 | 4,543 |
| Operating costs | 3,921 | 2,919 | 2,685 | 2,780 | 2,577 |
| Pre-impairment operating profit | 2,183 | 1,625 | 1,273 | 1,390 | 1,966 |
| Loan and other impairment charges | -313 | -233 | 645 | 220 | 153 |
| Operating profit | 2,496 | 1,858 | 628 | 1,170 | 1,813 |
| Other non-operating items (net) | 43 | 32 | -76 | -189 | -246 |
| Tax | 652 | 485 | 114 | 272 | 446 |
| Net income | 1,887 | 1,405 | 438 | 709 | 1,121 |
| Other comprehensive income | n.a. | n.a. | -252 | -336 | 399 |
| Fitch comprehensive income | 1,887 | 1,405 | 186 | 373 | 1,520 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| **Assets** | | | | | |
| Gross loans | 284,083 | 211,466 | 214,148 | 208,344 | 202,439 |
| - Of which impaired | 3,896 | 2,900 | 2,896 | 2,289 | 2,491 |
| Loan loss allowances | 1,163 | 866 | 1,357 | 846 | 820 |
| Net loans | 282,920 | 210,600 | 212,791 | 207,498 | 201,619 |
| Interbank | n.a. | n.a. | 2,004 | 2,583 | 3,515 |
| Derivatives | n.a. | n.a. | 3,451 | 3,363 | 5,321 |
| Other securities and earning assets | n.a. | n.a. | 30,105 | 41,529 | 47,882 |
| Total earning assets | 282,920 | 210,600 | 248,351 | 254,973 | 258,337 |
| Cash and due from banks | n.a. | n.a. | 43,537 | 26,395 | 24,180 |
| Other assets | 111,637 | 83,100 | 7,176 | 7,120 | 6,864 |
| Total assets | 394,557 | 293,700 | 299,064 | 288,488 | 289,381 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 258,201 | 192,200 | 193,088 | 179,006 | 173,692 |
| Interbank and other short-term funding | n.a. | n.a. | 42,503 | 38,465 | 33,975 |
| Other long-term funding | 87,858 | 65,400 | 40,209 | 47,535 | 56,032 |
| Trading liabilities and derivatives | n.a. | n.a. | 3,354 | 3,422 | 5,770 |
| Total funding and derivatives | 346,060 | 257,600 | 279,154 | 268,428 | 269,469 |
| Other liabilities | 26,599 | 19,800 | 3,321 | 3,375 | 3,348 |
| Preference shares and hybrid capital | n.a. | n.a. | 2,820 | 2,820 | 2,634 |
| Total equity | 21,897 | 16,300 | 13,769 | 13,865 | 13,930 |
| Total liabilities and equity | 394,557 | 293,700 | 299,064 | 288,488 | 289,381 |
| Exchange rate | | USD1 = GBP0.74438 | USD1 = GBP0.745156 | USD1 = GBP0.76211 | USD1 = GBP0.78768 |

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

## Summary Financials and Key Ratios

| | 31 Dec 21 | 31 Dec 20 | 31 Dec 19 | 31 Dec 18 |
|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 2.7 | 0.9 | 1.6 | 2.3 |
| Net interest income/average earning assets | 1.8 | 1.5 | 1.4 | 1.5 |
| Non-interest expense/gross revenue | 64.2 | 67.8 | 66.7 | 56.7 |
| Net income/average equity | 8.8 | 2.9 | 4.8 | 7.5 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 1.4 | 1.4 | 1.1 | 1.2 |
| Growth in gross loans | -1.3 | 2.8 | 2.9 | 1.0 |
| Loan loss allowances/impaired loans | 29.9 | 46.9 | 37.0 | 32.9 |
| Loan impairment charges/average gross loans | -0.1 | 0.3 | 0.1 | 0.1 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 15.9 | 15.2 | 14.3 | 13.2 |
| Tangible common equity/tangible assets | 5.6 | 4.1 | 4.2 | 4.2 |
| Basel leverage ratio | n.a. | n.a. | 4.3 | 4.1 |
| Net impaired loans/common equity Tier 1 | 18.8 | 13.9 | 13.8 | 16.1 |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 110.0 | 110.9 | 116.4 | 116.6 |
| Liquidity coverage ratio | 166.0 | 150.0 | 142.0 | 164.0 |
| Customer deposits/total non-equity funding | 74.6 | 69.0 | 66.4 | 64.2 |
| Net stable funding ratio | n.a. | n.a. | n.a. | n.a. |

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

## Key Financial Metrics – Latest Developments

### Risks to Asset Quality Reduced

Government support for individuals and businesses during the pandemic has significantly reduced downside risks to asset quality. At end-2021, the impaired loans ratio was unchanged from the previous year at 1.4%, although both ratios were slightly higher than pre-pandemic (1.1% at end-2019). We expect the ratio to remain between 1% and 2% over the next two years, which is consistent with our Asset Quality assessment. Coverage of impaired loans with loan loss allowances is low by international standards but reflects the collateralised and low-risk nature of SGH's loan book.

SGH's loan book consists mainly of retail loans, with mortgages representing 84% of customer loans at end-2021, slightly higher than at end-2020. UK consumer loans (about 4% of SGH's loans) are a higher-risk segment than mortgages, but SGH's exposure is largely through auto loans, which benefit from the security of the underlying vehicle.

### Profitability Stable but Lower then Peers

Earnings in 2021 (operating profit/RWAs was a strong 2.7% in 2021, up from low of 0.9% in 2020) benefited from strong mortgage volumes at higher margins as well as net releases of loan loss allowances, and deposit repricing supported profitability. Like other UK banking groups, SGH has begun to release the loan-loss allowances it raised in 2020 given the more positive outlook for the UK economy. Mortgage volumes were driven by a temporary reduction in taxes on property transactions, with borrowers rushing to complete home purchases by the end-September deadline. As a result, Fitch expects lower mortgage volumes in 2022. We also expect strong competition to put pressure on margins. Unlike monoline peers, SGH has the benefit of some higher-margin, non-mortgage lending, in particular consumer auto finance.

Fitch expects profitability to remain under pressure from SGH's transformation programme, which is improving efficiency by simplifying processes and closing branches. The programme involves large up-front expenses, with total expenses increasing by 13% over the past four years while operating income was flat. Future expenses include moving the group's headquarters out of London. Nonetheless, we expect the four-year average operating profit/RWAs ratio to remain above 1.5% over the next two years and to benefit from improved efficiency over the medium term as a result of the group's cost-reduction programme.

### Capitalisation Targets Driven by Leverage

SGH's capital is managed to a UK leverage ratio of about 5% and the group reported a ratio of 5.2% at end-2021. We expect increased capital distributions given current levels of capitalisation and the group's historical level of distributions to its parent. The CET1 ratio was 15.9% and we expect it to benefit from the transition to hybrid IRB capital models because SGH's current through-the-cycle models tend to use higher risk-weights. Fitch's assessment of capitalisation also considers the potential for ordinary support from Banco Santander, which can raise capital from its large pool of investors and downstream it to SGH.

In recent years SGH – the holding company – issued senior debt to meet its January 2022 end-state MREL of 28.4% of RWAs, including buffers. The holding company senior debt is down-streamed in a subordinated manner to San UK and SFS. The group plans to issue between GBP2 billion and GBP3 billion of senior debt from SGH in 2022 to replace older instruments that are approaching their call dates or otherwise due to lose their eligibility for inclusion in MREL.

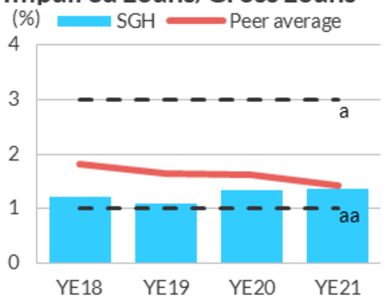
### Strong Funding Profile

SGH's funding profile is a relative strength and supported by a granular retail deposit base with a good current account franchise. Large deposit inflows during the pandemic have reduced the loans/deposits ratio to 110%. The group has proven access to wholesale funding markets and benefits from the potential for ordinary support from Banco Santander.

Like other UK banks, SGH has made large drawings from the Bank of England's low-cost term funding schemes (GBP31.9 billion at end-2021). These will have to be refinanced over the coming years through either deposits or wholesale funding. SGH's strong current account franchise will help limit the increase in funding costs as interest rates rise and central bank funding schemes are repaid, supporting profitability.

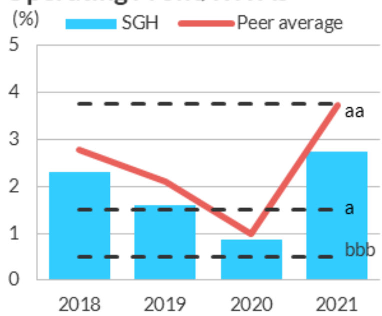
Peers (and latest period) included in charts: Lloyds Banking Group plc (FY21), Nationwide Building Society (1H22; end-September 2021) and NatWest Group plc (FY21).

**Impaired Loans/Gross Loans**



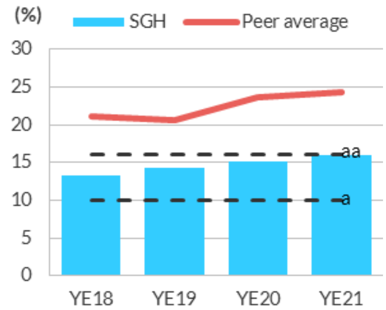

Source: Fitch Ratings, banks

**Operating Profit/RWAs**



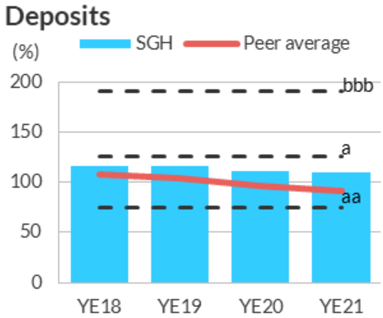

Source: Fitch Ratings, banks

**CET1/RWAs**




Source: Fitch Ratings, banks

**Gross Loans/Customer Deposits**




Source: Fitch Ratings, banks

## Shareholder Support

| Shareholder Support Rating KRDs | |
|---|---|
| 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

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

## 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 |

#### 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 |

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

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

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

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

#### CREDIT-RELEVANT ESG SCALE

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

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

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.