Fitch Ratings

Banks
Universal Commercial Banks
United Kingdom

Lloyds Banking Group plc

Key Rating Drivers

Solid Business Profile: Lloyds Banking Group plc's (LBG) ratings reflect its strong business profile in the UK where it holds leading retail and business banking franchises. It also reflects consistently strong profitability, and solid capitalisation and funding profiles.

Resilient Asset Quality: LBG's loan quality has remained resilient to the pandemic, and Fitch Ratings expects its impaired loans (Stage 3) ratio to deteriorate only moderately from 1.9% at end-3Q21, as government support measures wind down. Fitch expects higher non-performance in vulnerable portfolios such as unsecured consumer finance and SME lending than in the low-risk mortgage book (end-3Q21: 68% of loans). LBG's conservative underwriting, particularly in mortgage lending, underpins the bank's robust asset quality.

Consistently Strong Profitability: Underlying profitability has been consistently strong and we expect its four-year average operating profit/risk-weighted assets ratio to stay above 2.5% over the rating horizon, although lower than the highs reached in 9M21. Profitability benefits from strong revenue generation, which should be helped by rising interest rates and only moderate increases in loan impairment charges (LICs) given the improved economic outlook. LBG's aim to diversify income while remaining cost efficient should also support earnings resilience.

Strong Capitalisation: Capitalisation is strong, supported by the bank's strong profitability and risk-weighted assets (RWAs) optimisation, despite some regulatory RWAs inflation in 2022. We expect the common equity Tier 1 (CET1) ratio (16.1% at end-3Q21, net of software benefit and IFRS transitional relief) to gradually fall towards, but remain above, the management's target of about 13.5% through higher capital returns and growth.

Stable Funding Profile: LBG's funding and liquidity profile is sound, supported by a large deposit base, due to a leading retail franchise and good access to wholesale funding markets. Deposit inflows since the start of the pandemic have improved the loans/deposits ratio to below 95% at end-3Q21, but a portion of these inflows may prove transitory.

Rating Sensitivities

Operating Environment: LBG's ratings have material headroom at the current level, given LBG's strong business profile and performance metrics. However, the Viability Rating (VR) could be downgraded in the event of an unexpected severe setback to the economic outlook.

Financial Metrics: We estimate the average four-year impaired loans ratio will remain at around 2% over the next two years and the VR could be downgraded as a result of an increased likelihood that the four-year ratio rises to above 3% without a clear path to reduction. At the same time, we would need to see a significant weakening in operating profit (below 1.5% of RWAs for a sustained period of time), and for the CET1 ratio to remain materially below the bank's current target of about 13.5%.

LBG's VR and IDR could also be downgraded if the holding company's double leverage increases above 120%.

Increased Capital Targets: An upgrade of LBG's VR would most likely result from an upgrade of the capitalisation and leverage score. We could upgrade this score if the CET1 ratio remained at or above the bank's current target, and if this is supported by a continued record of strong profitability and healthy asset quality and in the absence of a more aggressive risk appetite.

Ratings

Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Viability Rating	a
Government Support Rating	ns
Sovereign Risk	
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	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (November 2021)

Related Research

Fitch Affirms Lloyds Banking Group at 'A'; Outlook Stable (January 2022)

Major UK Banks' Resilient Performance Increases Rating Headroom (January 2022)

Large European Banks Quarterly Credit Tracker - December 2021 (December 2021)

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Issuer Ratings (Including Main Issuing Entities)

Rating level	LBG	LB	BOS	HBOS plc	LBCM	LBCMW
Long-Term IDR/Outlook	A/Stable	A+/Stable	A+/Stable	A+/Stable	A+/Stable	A+/Stable
Short-Term IDR	F1	F1	F1	F1	F1	F1
Viability Rating	a	a	a	-	-	-
GSR[a]/SSR[b]	ns[a]	ns[a]	ns[a]	a[b]	a[b]	a[b]
Derivative Counterparty Rating	A+(dcr)	A+(dcr)	A+(dcr)	-	A+(dcr)	-

Lloyds Bank plc (LB), Bank of Scotland plc (BOS) and HBOS are the ring-fenced entities of the group and Lloyds Bank Corporate Markets (LBCM) and Lloyds Bank Corporate Markets Wertpapierhandelsbank (LBCMW) are the group's non-ring-fenced entities
[a] Government Support Rating [b] Shareholder Support Rating
Source: Fitch Ratings

Fitch assesses LBG on a consolidated basis as it is managed as a group and is highly integrated. LBG acts as the holding company for the group, and its VR is equalised with that of the main operating subsidiaries, reflecting LBG's role in the group and moderate holding company double leverage, which is comfortably below 120%. The ratings of LBCM, LBCMW and HBOS plc are based on support from LBG.

The Long-Term IDRs of all operating subsidiaries are notched up from the group's and their own VR (where assigned). This is because of the presence of a large (more than 10% of RWAs) buffer of qualifying junior debt and senior holding company debt down-streamed in a subordinated manner, underpinned by Minimum Requirements for Eligible Liabilities (MREL) regulations and requirements. The buffer could be made available to protect their senior obligations from default in the event of the failure of any of the group companies.

Derivative Counterparty Ratings are at the same level as the Long-Term IDRs because derivative counterparties have no preferential status over other senior obligations in a resolution scenario in the UK.

Short-Term IDRs: The Short-Term IDRs are the lower option mapping to the Long-Term IDRs in line with our assessment of the group's funding and liquidity profile, which we score 'a'.

Debt Class Ratings

Rating level	LBG	LB	BOS	HBOS plc	LBCM
Senior unsecured debt	A/F1	A+/F1	A+/F1	A+/F1	A+/F1
Tier 2 subordinated debt	BBB+	BBB+	BBB+	BBB+	-
Legacy upper Tier 2	BBB	BBB	BBB	BBB	-
Legacy innovative Tier 1 Non-discretionary/preference stock	BBB-	BBB-	BBB-	-	-
Additional Tier 1 debt	BBB-	BBB-	-	-	-

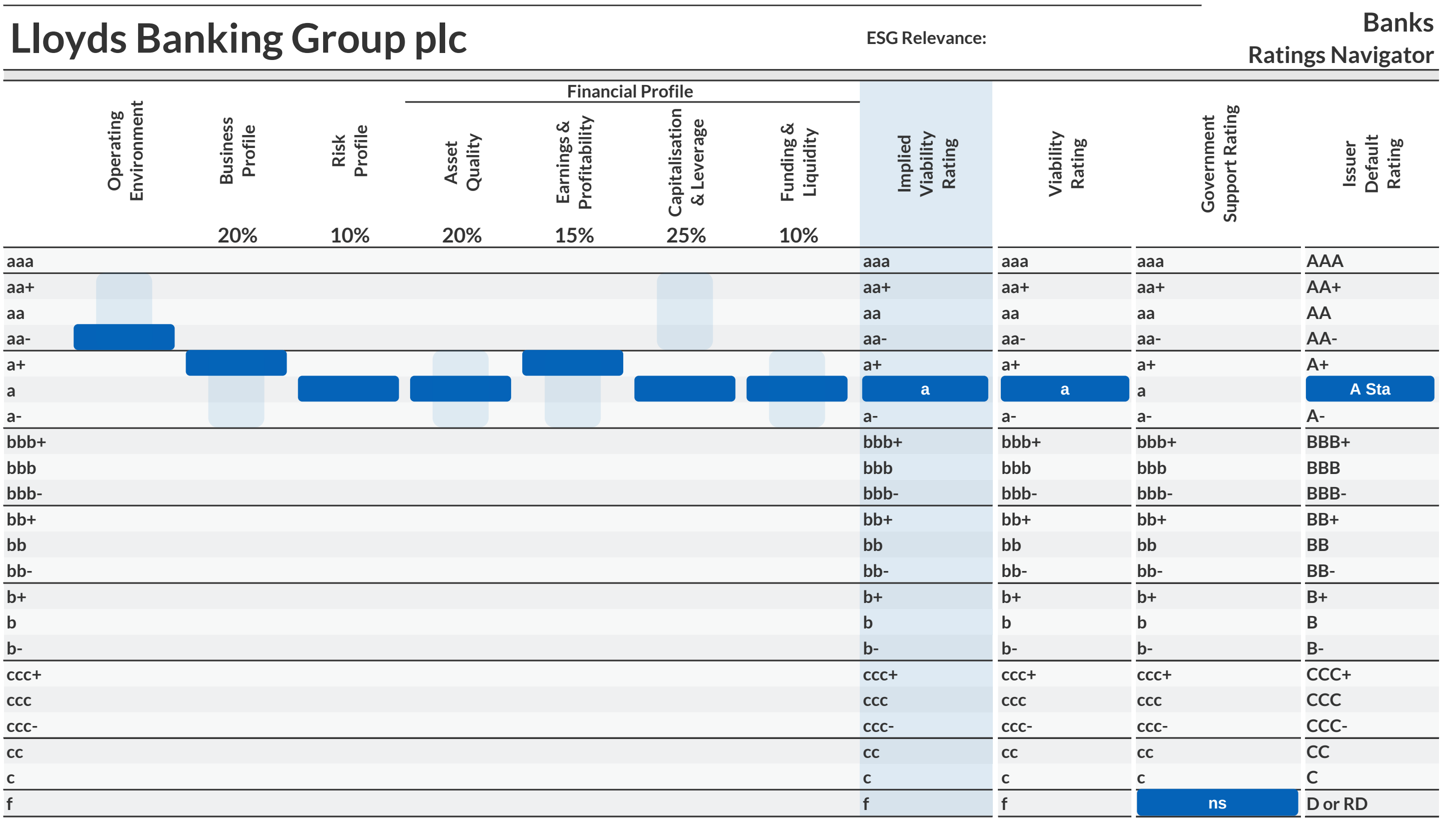
Source: Fitch Ratings

Senior unsecured debt and programme ratings are equalised with the respective issuers' IDRs.

Tier 2 subordinated debt issued by LBG, LB, BOS and HBOS is rated two notches below their respective VRs (LBG's VR in the case of HBOS). This is the baseline notching under our criteria, reflecting high loss severity for this type of debt. The ratings of legacy upper Tier 2 subordinated debt issued by LBG, LB, HBOS and BOS are notched down three times, twice for loss severity and once for incremental non-performance risk.

Additional Tier 1 and legacy Tier 1 and preferred stock issued by LBG, LB and BOS are four notches below the anchor VRs, two each for loss severity and incremental non-performance risk. Our assessment is based on the group operating with a CET1 ratio comfortably above maximum distributable amount (MDA) thresholds and we expect this will continue.

Ratings Navigator



Legend: 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.

Significant Changes

Operating Environment on Stable; Improving Economic Conditions

Fitch's GDP growth expectations for the UK have gradually improved, with forecast growth of 6.9% for 2021 and 5.0% for 2022. The housing market has also been materially stronger. A temporary increased threshold for the payment of stamp duty between July 2020 and end-3Q21 resulted in a strong rise in property transactions as borrowers sought to complete transactions before the tax holiday ended. This supported continued house price and mortgage volume growth between the summer of 2020 and the end of 3Q21.

Strong demand for mortgages supported net interest yields on new lending, providing a boost to earnings for UK mortgage lenders, including LBG. Asset quality has also held up well, with few arrears as the government and other support measures helped borrowers remain up-to-date with their repayments.

Improved Assessment of Asset Quality and Earnings and Profitability

We have upgraded LBG's asset quality score to 'a' from 'a-' reflecting resilient asset quality and our expectations for the impaired loans ratio to remain on average just above 2% over the rating horizon. We have also upgraded LBG's earnings and profitability score to 'a+' from 'a' reflecting consistently strong underlying profitability which compares well with that of peers.

Brief Company Summary

Leading Retail Franchise; Diversified Business Model

LBG is the UK's largest domestically focused bank with leading market shares across key retail products which provide it with considerable pricing power. The group's business model is diversified with operations in retail banking (63% of 1H21 income), commercial banking (24%) and insurance and wealth activities (9%), with the balance in central and other items, which supports its strong earnings generation. Its international operations are limited, consisting mainly of addressing overseas activities of UK corporates and mortgage lending in the Netherlands.

The group has a market share of around a fifth of the UK mortgage loans market, and strong market shares in consumer cards, retail deposits and SME and commercial lending. Market shares are more modest in insurance and wealth products, but this is a focus of growth under LBG's strategy and the bank has made progress including with the recent acquisition of Embark (an investment and retirement business; GBP35 billion of assets; around 410,000 customers).

Retail activities are primarily undertaken through the Lloyds Bank, Halifax and Bank of Scotland brands. Mortgage loans accounted for around 68% total loans at end-3Q21; cards balances, unsecured lending and UK motor finance loan volumes together formed a moderate 8% of end-3Q21 loans, although they make a higher contribution to earnings given high margins.

The commercial banking segment (about a fifth of customer loans) focuses on UK-based SMEs and corporate clients. LBG's insurance services are run under the Scottish Widows (A/Stable) brand and cover a range of products sold through financial advisers and most of LBG's brands.

Income Diversification a Strategic Priority; Good Execution Record

LBG aims to boost non-interest income (mainly through the wealth and insurance offering) and to achieve greater cost efficiencies through investments in digitalisation and a reduction in property footprint. LBG's management has a good execution record, including substantial restructuring and strengthening of the bank in the years after the global financial crisis. We expect this to continue under new management including the group's new CEO.

Risk Profile Reflects Conservative Underwriting

LBG's underwriting standards are conservative and consistent with the bank's long-term strategy and we consider risk controls, limits and reporting tools to be robust. Mortgages continue to account for the majority of the loan book, and we see this asset class as low-risk, owing to conservative collateralisation and underwriting standards, in line with its UK peers. New mortgage lending in 9M21 had an average loan-to-value (LTV) of 64%, and the average LTV of the overall retail mortgage book was a low 43%.

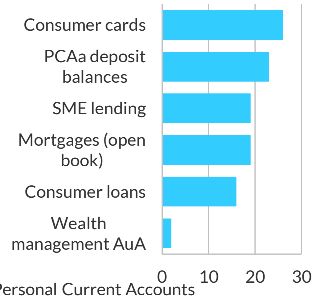
Nevertheless, the bank also targets gradually increasing its higher-risk retail unsecured loans and credit cards portfolio (together about 5% of gross loans; down 16% since end-2019) which has contracted during the pandemic as balances were repaid. Motor finance loans (3% of gross loans; down 10% since between 2019-9M21) is another focus area of the group but has been dampened by supply chain issues which has caused lower new car sales and higher second-hand car prices. Performance in these portfolios have held up despite macroeconomic pressures.

Loan growth is expected to be in line with the market, funded by a mixture of retail and wholesale funding, as well as current excess liquidity. The bank may utilise some of its excess capital to target ad hoc opportunistic acquisitions to improve is market positions in some of its strategic markets.

Market risk arises mainly from structural interest rate risk in the banking book, in line with the bank's lending focus. We view market risk as appropriately managed through hedging. The end-3Q21 structural hedge had a nominal balance of GBP225 billion (end-2020: GBP186 billion) and a weighted average duration of around three-and-a-half years (GBP1.6 billion in income over the period (9M20: GBP1.9 billion). A 25bp increase in the interest rate curve would have increased net interest income (NII) by GBP225 million (3% of 9M21 NII) over 12 months (all else being equal), and by GBP425 million for a 50bp increase, at end-3Q21.

Market Shares

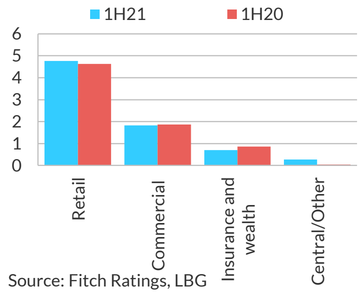
End-1H21 or latest disclosed, (%)



[a] Personal Current Accounts
Source: Fitch Ratings, LBG

Business Mix - Income

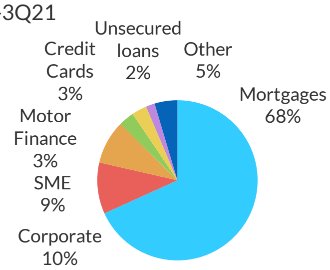
(GBPbn)



Source: Fitch Ratings, LBG

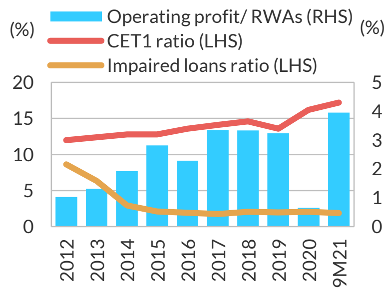
Loan Book Composition[a]

End-3Q21



[a] Excludes reverse repurchase agreements of GBP 52 (bn)
Source: Fitch Ratings, LBG

Performance Through-The Cycle



Source : Fitch Ratings

Summary Financials and Key Ratios

		30 Sep 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018[a]
	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	11,111	8,270.0	10,749.0	10,180.0	13,396.0
Net fees and commissions	n.a.	n.a.	1,160.0	1,406.0	1,462.0
Other operating income	5,042	3,753.0	3,217.0	6,529.0	3,924.0
Total operating income	16,153	12,023.0	15,126.0	18,115.0	18,782.0
Operating costs	9,175	6,829.0	9,656.0	10,220.0	10,980.0
Pre-impairment operating profit	6,978	5,194.0	5,470.0	7,895.0	7,802.0
Loan and other impairment charges	-994	-740.0	4,155.0	1,296.0	936.0
Operating profit	7,972	5,934.0	1,315.0	6,599.0	6,866.0
Other non-operating items (net)	n.a.	n.a.	-89.0	-2,206.0	-906.0
Tax	630	469.0	-161.0	1,387.0	1,560.0
Net income	7,342	5,465.0	1,387.0	3,006.0	4,400.0
Other comprehensive income	n.a.	n.a.	110.0	-1,126.0	-113.0
Fitch comprehensive income	7,342	5,465.0	1,497.0	1,880.0	4,287.0
Summary Balance Sheet					
Assets					
Gross loans	611,725	455,319.0	445,960.0	443,647.0	447,525.0
- of which impaired	11,578	8,618.0	9,089.0	8,754.0	9,215.0
Loan loss allowances	6,568	4,889.0	5,760.0	3,259.0	3,150.0
Net loans	605,156	450,430.0	440,200.0	440,388.0	444,375.0
Interbank	n.a.	n.a.	8,060.0	8,220.0	5,781.0
Derivatives	31,157	23,191.0	29,613.0	26,369.0	23,595.0
Other securities and earning assets	402,597	299,661.0	295,608.0	279,962.0	238,190.0
Total earning assets	1,038,911	773,282.0	773,481.0	754,939.0	711,941.0
Cash and due from banks	92,531	68,873.0	73,257.0	55,130.0	54,663.0
Other assets	53,528	39,842.0	24,531.0	23,824.0	30,994.0
Total assets	1,184,970	881,997.0	871,269.0	833,893.0	797,598.0
Liabilities					
Customer deposits	651,839	485,177.0	450,651.0	411,790.0	416,248.0
Interbank and other short-term funding	19,200	14,291.0	72,268.0	68,046.0	73,791.0
Other long-term funding	126,227	93,953.0	82,563.0	91,403.0	84,758.0
Trading liabilities and derivatives	60,362	44,929.0	34,963.0	36,217.0	30,325.0
Total funding and derivatives	857,628	638,350.0	640,445.0	607,456.0	605,122.0
Other liabilities	256,617	191,005.0	178,706.0	174,504.0	138,269.0
Preference shares and hybrid capital	7,927	5,900.0	8,611.0	10,033.0	10,499.0
Total equity	62,798	46,742.0	43,507.0	41,900.0	43,708.0
Total liabilities and equity	1,184,970	881,997.0	871,269.0	833,893.0	797,598.0
Exchange rate		USD1 = GBP0.74432	USD1 = GBP0.745156	USD1 = GBP0.76211	USD1 = GBP0.78768

[a] End-2018 financial data is based on originally published financial statements.
Source: Fitch Ratings, Fitch Solutions, LBG

Summary Financials and Key Ratios

	30 Sep 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	4.0	0.7	3.2	3.3
Net interest income/average earning assets	1.6	1.7	1.7	2.1
Non-interest expense/gross revenue	56.8	63.8	56.4	58.5
Net income/average equity	16.3	3.2	7.0	10.2
Asset quality				
Impaired loans ratio	1.9	2.0	2.0	2.1
Growth in gross loans	2.1	0.5	-0.9	-0.7
Loan loss allowances/impaired loans	56.7	63.4	37.2	34.2
Loan impairment charges/average gross loans	-0.2	0.9	0.3	0.2
Capitalisation				
Common equity Tier 1 ratio	17.2	16.2	13.6	14.6
Fully loaded common equity Tier 1 ratio	16.1	15.0	13.3	14.6
Tangible common equity/tangible assets	5.3	4.0	4.0	4.5
Basel leverage ratio	5.3	5.3	4.8	5.1
Net impaired loans/common equity Tier 1	10.8	10.1	19.8	20.1
Funding and liquidity				
Gross loans/customer deposits	93.9	99.0	107.7	107.5
Liquidity coverage ratio	130.0	136.0	137.0	130.0
Customer deposits / total non-equity funding	77.5	72.5	69.6	70.1

Source: Fitch Ratings, Fitch Solutions, LBG

Key Latest Developments

Asset Quality Deterioration to Be Manageable

Asset quality has remained resilient to the pandemic, with the end-3Q21 impaired loans (stage 3) ratio at 1.9% of gross loans (net of reverse repurchase agreements), lower than at end-2020 (2.0%). The percentage of loans classified as Stage 2 loans is also falling but is still higher than at end-2019 (end-3Q21: 10.9%; end-2020: 13.6%; end-2019: 8.7%). The loan book is fairly diversified by product but heavily concentrated in the UK, meaning loan performance is sensitive to changes in the domestic economic outlook.

We expect asset quality to deteriorate moderately as government support measures fully wind down, with non-performance rates higher in the bank's more vulnerable portfolios such as credit cards and retail unsecured lending as well as in some commercial lending, including to SMEs (9%). The bank estimates that exposures to sectors impacted by the pandemic amounted to under 2% of loans at end-1H21, after having been managed down by GBP2 billion since 1H20.

Rising Policy Rates, Lower Impairment Charges to Support Profitability

LBG's strong record of underlying profitability compares well with peers and prospects have risen owing to the improved UK economic outlook and demand dynamics. The 9M21 operating profit/RWAs ratio was 4.0%, compared with a 2017-2020 average of 2.6%, although Fitch does not consider the 9M21 result to be sustainable in the medium term. LBG's full-year 2021 return on tangible equity will surpass management's initial guidance of 10% (17.6% in 9M21) owing to higher income but also as a result of expected credit losses releases of a sizeable GBP740 million (equivalent to 14% of pre-impairment operating profit in 9M21).

NII (about 70% of total revenue) was supported in 9M21 by mortgage loan growth and the low cost of customer deposits. We expect some tailwinds to NII in 2022 from rising interest rates given the group's structural hedge and a modest expected recovery in unsecured loan balances, although this is likely to be less pronounced in 2023 as funding cost gradually rise. We expect the level of LICs to normalise towards the lower end of historical averages in 2022.

Strong competition in mortgage lending has increased earnings pressure although LBG has been more resilient compared with peers owing to strong cost control, a loan book that includes higher-margin unsecured loans, and earnings from insurance activities.

Material Capital Headroom

The group's CET1 ratio improved to 16.1% at end-3Q21 (excluding software benefit and IFRS 9 transitional relief). On an IFRS9 phased-in basis the ratio was even higher at 17.2%, well in excess of requirements (around 11%) providing headroom for the required increase in the countercyclical buffer over time (1% by end-2022 and anticipated 2% by end-2023), and the anticipated increase in dividends and capital returns. Nonetheless, we expect the group's strong internal capital generation will help keep the CET1 ratio above management's target of around 12.5% plus a management buffer of about 1%.

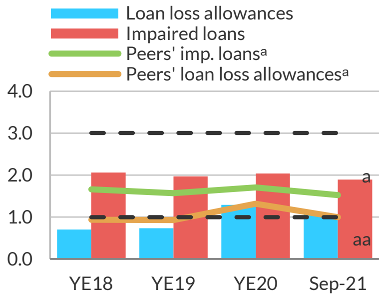
Large Deposit Base Supports Liquidity

LBG's funding profile is strong, supported by the group's large deposit base and its leading retail franchise. The Fitch-calculated gross loans-to-deposits ratio improved to 94% at end-3Q21 (end-2020: 99%; end-2019: 108%) owing to an 8% increase in customer deposits in 9M21 (9% in 2020) as saving rates remained higher than pre-pandemic. To an extent these are transitory and might wane once spending picks up, which the bank also factors in conservatively in its liquidity management.

The bank also has demonstrated wholesale funding access (around GBP10 billion long-term issuance in 2020, GBP2 billion in 1H21). The take-up of Bank of England funding facilities (TFSME; GBP3.7 billion at end-3Q21; 0.6% of funding) has been low given the ample availability of deposits but could increase as deposit balances normalise. Liquidity is well managed and robust supported by a large pool of high-quality liquid assets (GBP137 billion at end-3Q21; 28% of customer deposits), a significant proportion of which are in the form of cash and cash equivalents or high-quality government bonds. LBG's MREL ratio was 36.9% at end-3Q21, well above the January 2022 requirement of 27.5%, including buffers, creating limited near-term issuance needs.

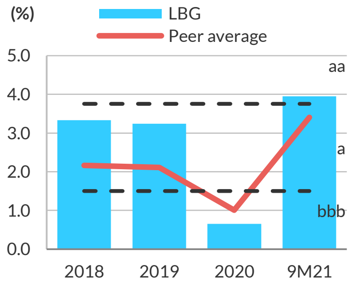
[a] Peer average includes LBG, Natwest Group plc (a), Santander UK Group Holdings plc (a), Nationwide Building Society (a), HSBC Holdings plc (a+) and Barclays plc (a)

Asset Quality
(% gross loans)



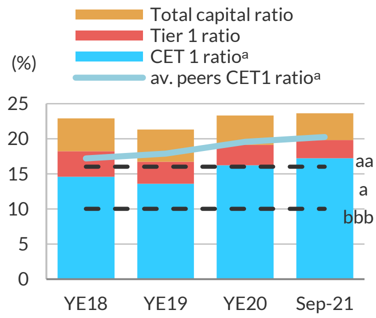
Source: Fitch Ratings, banks

Operating Profit/RWAs



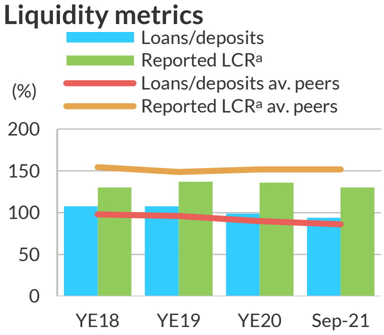
Source: Fitch Ratings, banks

Risk-Weighted Capital Ratios



Source: Fitch Ratings, banks

Liquidity metrics



[a]LCR: Liquidity Coverage Ratio
Source: Fitch Ratings, banks

Government Support

We consider LB and BOS core banks of the group. We have therefore assigned them the same GSR as LBG. The GSRs reflect Fitch's view that senior creditors cannot rely on extraordinary support from the UK authorities in the event these issuers become non-viable. This is due to UK legislation and regulations that provide a framework requiring senior creditors to participate in losses in a failure.

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

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

Environmental, Social and Governance Considerations

FitchRatings

Lloyds Banking Group plc

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Lloyds Banking Group plc has 5 ESG potential rating drivers

- Lloyds Banking Group 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.