FitchRatings

Lloyds Banking Group plc

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Local Currency

Viability Rating	a
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	AA-
Long-Term Local-Currency IDR	AA-
Country Ceiling	

Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Local-Currency IDR	Negative

Key Rating Drivers

Leading Domestic Franchise: Lloyds Banking Group's (LBG's) Viability Rating (VR) reflects its leading domestic retail franchise, strong record of pre-impairment profitability, solid capitalisation and funding. It also reflects its UK focus and appetite for higher-risk lending such as unsecured lending and motor finance. The Negative Outlook on LBG's Long-Term Issuer Default Rating (IDR) signals the potential implications of the pandemic' economic fallout.

Operating Environment Link: As a largely domestic banking group LBG's credit strength is correlated with the UK operating environment. Fitch Ratings' operating environment for UK banks remains on negative outlook, reflecting increased risks from economic disruption as a result of the coronavirus and the Negative Outlook on the UK sovereign.

Strong Earnings Record Disrupted: LBG's Fitch-calculated operating profit declined by 80% yoy in 2020, affected by income headwinds and heightened loan impairment charges (LICs). We see this in the context of LBG's strong record of profitability compared to peers. But a recovery to pre-pandemic levels will likely be gradual as the continuation of lockdowns and low interest rates continue to affect its revenue generation. Strategic investments targeting efficiency and non-interest income will take time to yield material benefits.

Asset Quality Pressure: We expect LICs to decline after a front-loading of charges for performing exposures in 2020. At the same time, the ratio of Stage 3 loans (2% of gross loans at end-2020) will likely increase as government measures to support borrowers roll off. The group's unsecured retail exposure and certain wholesale exposure are most at risk.

Capital Resilient in 2020: The common equity Tier 1 (CET1) ratio rose to 16.2% at end-2020, above requirements and the bank's target of about 13.5%. But it faces headwinds from the wind-down of IFRS 9 transitional relief, the treatment of software intangibles, and the resumption of dividends. We expect the bank to manage above-target capital ratios, but risks from the operating environment remain elevated.

Stable Funding Profile: Crisis-driven retail deposit inflows strengthened the Fitch-calculated loans/deposits ratio to 99% at end-2020, which we believe to be temporarily low. Liquidity was also boosted by large inflows of customer deposits, supporting the liquidity coverage ratio (LCR) to an average of 136% for 2020.

Rating Sensitivities

Pressure on Financials: The group's ratings would be downgraded if there was sustained pressure on earnings and asset quality, particularly in the bank's unsecured retail and commercial exposures, or on LBG's ability to execute on strategic targets. A weaker operating environment, e.g. in the event of a UK sovereign downgrade, would reduce its ratings headroom.

LBG's VR is also sensitive to an increase in risk appetite, which we do not expect in the medium term, or to a weakening of the funding and liquidity profile. LBG's VR could be downgraded if holding company double leverage increases above 120%.

Path of Pandemic: LBG has headroom to emerge from the current crisis with its ratings intact due to the relative strength of its company profile and sound financial profile. The ratings Outlook could be revised to Stable if the negative impact of the pandemic and of Brexit on the UK economy is short and the recovery relatively fast.

QJD buffer: LBG's IDR could be downgraded to the level of its VR if we no longer expect the qualifying junior debt (QJD) buffer to be maintained above 10% of risk weighted assets (RWAs) (9.4% at end-2020).

Applicable Criteria

Bank Rating Criteria (February 2020)

Related Research

Global Economic Outlook - March 2021

Large European Banks Quarterly Credit Tracker - 4Q20 (March 2021)

Fitch Affirms Lloyds Banking Group at 'A+'; Outlook Negative (September 2020)

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Issuer Ratings (Including Main Issuing Entities)

Rating level	LBG	LB	BOS	HBOS plc	LBCM	LBCMW
Long-Term IDR/Outlook	A+/Negative	A+/Negative	A+/Negative	A+/Negative	A+/Negative	A+/Negative
Short-Term IDR	F1	F1	F1	F1	F1	F1
Viability Rating	a	a	a	-	-	-
Support Rating	5	5	5	1	1	1
Support Rating Floor	NF	NF	NF	-	-	-
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.
Source: Fitch Ratings

Viability Ratings: Fitch assesses LBG's Standalone Credit Profile (SCP) on a consolidated basis. LBG acts as the holding company for the group, and its VR is equalised with that of the main ring-fenced subsidiaries, Lloyds Bank plc (LB), and Bank of Scotland Plc (BOS), reflecting LBG's role in the group and moderate holding company double leverage, which remains comfortably below 120%. We assign a common VR to LB and BOS, due to their size and integration. The ratings of LBCM, LBCMW and HBOS plc are based on support from LBG.

Long-Term IDRs: 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 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. These could be made available to protect their senior obligations from default in the event of the failure of any of the group companies.

A one notch uplift is also assigned to the Long-Term IDR of LBG because the QJD, which is generally maintained at over 10% of RWAs, would be sufficient, in Fitch's view, to restore the group's viability without hitting senior creditors also at the holding company level. At the latest reporting date, the group had fallen below this threshold (QJD was 9.4% of end-2020 RWAs, excluding insurance RWAs and subordinated debt).

DCRs: 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	A-	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.

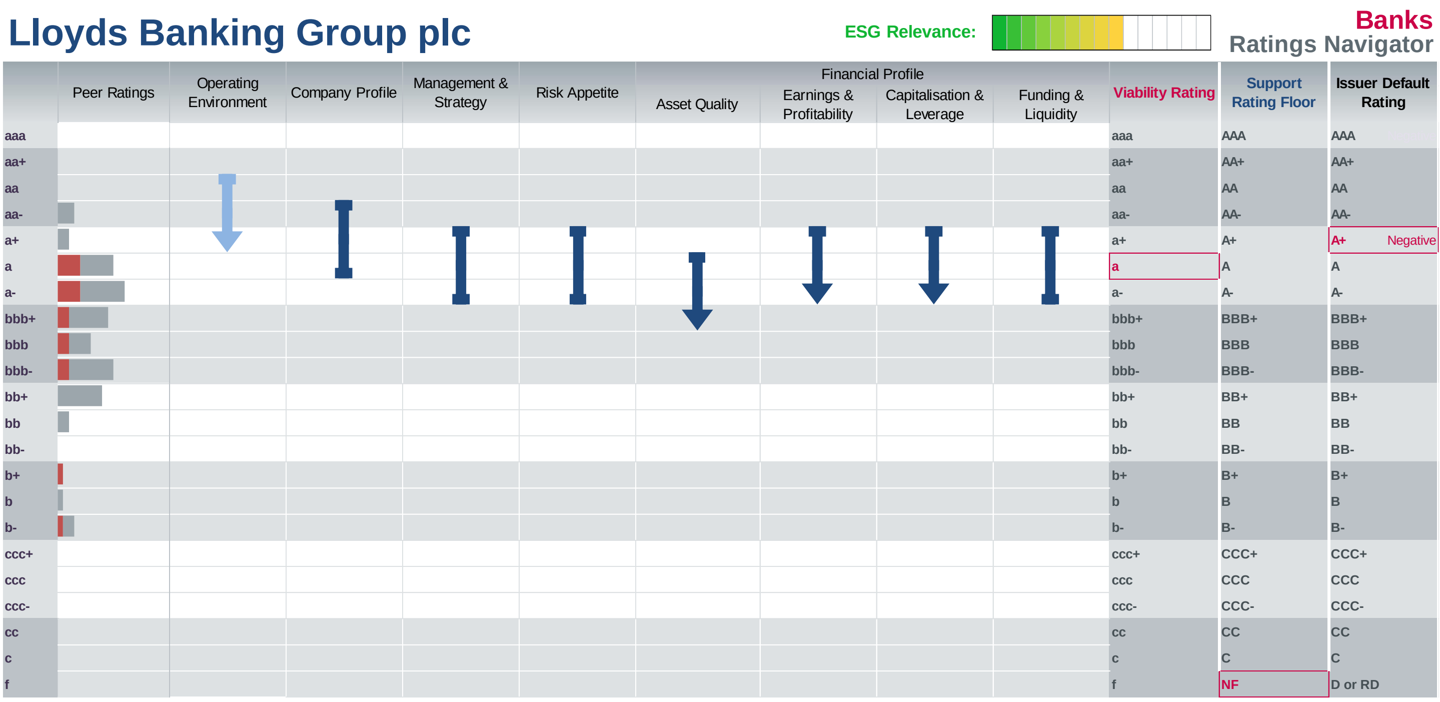
The ratings of subordinated debt and hybrid securities are notched down from the entities' respective VRs. HBOS' subordinated debt ratings are notched from LBG's VR.

The Tier 2 debt of BOS, HBOS plc, and LB is rated two notches below the anchor rating for loss severity, in line with Fitch's baseline notching for Tier 2 debt. LBG's Tier 2 debt rating is notched only once from its VR because we believe the loss severity of this debt class is mitigated at the LBG level by the large QJD buffer. This approach also reflects LBG's holding company status as we expect that subordinated debt in the operating subsidiaries will see losses before holding company subordinated debt is impacted.

LBG's and LB's Additional Tier 1 debt ratings and of its legacy Tier 1 and preferred stock are four notches below the VR, two each for loss severity and incremental non-performance risk. Our assessment of the AT1 notching is based on the group operating with a CET1 ratio comfortably above maximum distributable amount thresholds and we expect this will continue. At end-2020 the 16.2% CET1 ratio was well in excess of the 9.1% Maximum Distributable Amount threshold.

The ratings of legacy upper Tier 2 subordinated debt are notched down three times, twice for loss severity and once for incremental non-performance risk.

Ratings Navigator



Significant Changes and Latest Developments

Negative Outlook Signals Operating Environment Pressures

The Negative Outlook on LBG's Long-Term IDR, which has been in place since 31 March 2020, reflects the potential implications of the economic and financial market fallout from the pandemic with downside risk to LBG's financial profile.

Fitch's assessment of the Operating Environment for UK banks remains on negative outlook reflecting increased risks from economic disruption as a result of the coronavirus and the Negative Outlook on the UK sovereign's Long-Term IDR (AA-/Negative). The score would likely be downgraded if the UK sovereign rating is downgraded to 'A+' because we consider the links between the UK sovereign, economy and operating environment for domestic banks to be strong. The sovereign rating was reviewed on 15 January 2021 and the rating was affirmed with a Negative Outlook.

A downgrade of the operating environment would not on its own drive a downgrade of LBG's VR, due to the strength of LBG's company profile and its good record of pre-impairment

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive ⇩ Negative

⇳ Evolving ▭ Stable

earnings. However, a lower operating environment score would reduce LBG's ratings headroom, putting pressure on asset quality and capitalisation.

Fitch expects the UK economy to grow with a 5% increase in GDP in 2021 after a sharp estimated decline of 9.9% in 2020. Fitch's estimates were revised up, to reflect the last-minute UK-EU Trade and Cooperation Agreement, unexpected sequential growth in 4Q20, the improved global outlook, additional fiscal easing, and swift progress on the vaccine rollout.

We believe that the UK banks have been more proactive than many European peers in front-loading expected credit losses in 2020, which should moderate the implications of rising impaired loans on 2021 profitability. Banks are also well capitalised, owing to mostly solid starting points as well as profit accrual in 2020.

However, downside risks remain. UK authorities' substantial monetary and fiscal support measures have to a large extent shielded the population, the private sector and banks from the implications of the economic disruptions in 2020. As these measures gradually roll off in 2021, we expect impaired loans to rise across the banking sector, as some vulnerable industries will find it hard to recover from the crisis and as unemployment rates go up.

Brief Company Summary

Diversified, Retail-Dominated Business Model and Strong Franchise

LBG is the largest retail and commercial bank in the UK, with a stable and diversified business model across retail, commercial banking and insurance. The bank's retail focus with business diversification supports earnings stability through the cycle although its domestic profile increases the correlation between its performance and the UK's operating environment. LBG's strong franchise, including its position as market leader in key retail products, commanding about a fifth of the market in core products, provides the group with considerable pricing power.

Retail activities, via the Lloyds Bank, Halifax and Bank of Scotland brands, are the main source of LBG's earnings. Similar to other UK retail banks, LBG's retail business focuses on mortgages, which form nearly 66% of customer loans (excluding reverse repurchase agreements). This segment benefited from borrower and housing market support and resilient demand in 2020 and 1Q21. We continue to see this asset class as low-risk, owing to conservative collateralisation and underwriting standards, in line with large UK peers. Credit cards balances, personal loans and UK motor finance loans together formed 9% of end-2020 loans (excluding reverse repurchase agreements). Their share in the business mix declined during the year as balances were repaid, impacting net interest margins but benefiting cost of risk.

The commercial banking segment focuses on UK-based small and medium-sized enterprises (SMEs) and mid-market and corporate clients. Drawn volume increases by corporate and institutional clients due to revolving credit facilities drawdowns in 1H20 were transitory, and over the year exposure to these clients fell, in part offset by higher volumes of SME lending, predominantly through government guarantee programmes.

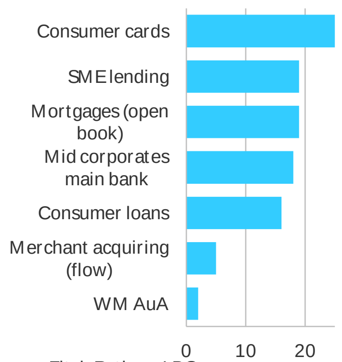
LBG's Insurance and Wealth division is composed of wealth management and insurance services run under the Scottish Widows brand and cover a range of products sold through financial advisers, and across most of LBG's brands. This segment has been growing and the group continues to target increasing income and market share in key insurance and wealth management products in the latest strategic update.

2021 Strategy Focused on Income Diversification and Efficiency

LBG's management has a good execution record, including substantial restructuring and strengthening of the bank in the years after the global financial crisis. The focus in the pandemic recovery period will be on achieving further income diversification through a focus on fee-generating businesses, as well as on driving further cost efficiency through technology optimisation, digitisation in client interactions and office space reductions.

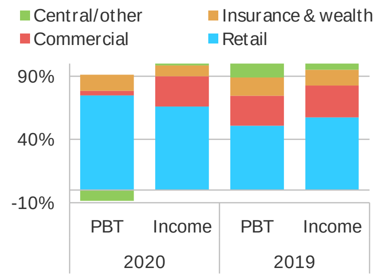
Areas of revenue opportunity pursued by the group include its insurance and wealth franchise where it is focusing on priority clients and targeting net new money growth; its payments and merchant services offering where it is building capabilities and targeting client growth; and its Markets offering to corporate and institutional clients. These are areas where the bank is

Market Shares
(End-2020 or latest disclosed, %)



Source: Fitch Ratings, LBG

Business Mix



Note: On an underlying basis.
Source: Fitch Ratings; LBG

significantly underweight compared to its market shares in leading retail and SME products, thereby providing some opportunity to grow.

Key Financial Factors

Gradual Recovery in Profitability After Sharp Drop in 2020

LBG reported a sharp drop in profitability in 2020 as earnings were affected by income challenges and heightened LICs. The bank guides to improved profitability in 2021, striving for 5%-7% return on equity (2020: 2.3%), which will largely be driven by lower LICs.

The group's net interest margin (NIM) declined to 252bp in 2020 following a decrease in the Bank of England's base rate, but ticked up in 4Q20, benefiting from improved yields in the mortgage business and lower funding costs. NIM pressure will likely continue in 2021 due to asset repricing, lower balances of higher-yielding consumer finance and reinvestment of the structural hedge at lower interest rates. A steepening of yield curves in early 2021 has mitigated some of the pressure from reinvestment of larger-than usual structural hedge maturities in 2021.

Non-interest income has been affected by lower customer activity and is expected to gradually recover, particularly as lockdowns ease in the UK, and as the benefits of the group's strategic investments materialise over time.

Operating expenses decreased as targeted in 2020, and are set to reduce further in 2021. Restructuring costs increased to GBP521 million, however, due to severance and property rationalisation measures aimed at leaner costs. They are expected to remain high in 2021 due to technology research and development costs.

Stage 3 Migrations Expected but Cost Largely Incurred

Credit impairments in 2020 (GBP4.2billion including on non-loan assets) were elevated but ended up below guidance owing to a more resilient than expected economic outturn and improved prospects. The credit impairment charge primarily reflected the effects of its IFRS 9 macroeconomic forecasts, as well as heightened Stage 3 provisioning needs on a relatively limited number of commercial clients. In 2021, credit impairments are expected be less than half of 2020 levels owing to the improved economic outlook - although there is still a risk of setbacks.

The group's stock of Stage 3 loans increased only modestly by 4% in 2020 to account for 2% of gross loans. We expect further deterioration as the government support measures and the bank's own forbearance measures roll off, particularly in card and unsecured retail lending and in SME and commercial lending to in the sectors most affected by the lockdowns.

Retail lending arrears rates have remained low so far, helped by interest and principal repayment holidays. Payment holidays were granted on GBP68 billion loans to retail customers during 2020, of which 98% had matured. Of these, the majority (89%) had returned to paying while 6% were extended and 5% had gone into arrears at year-end.

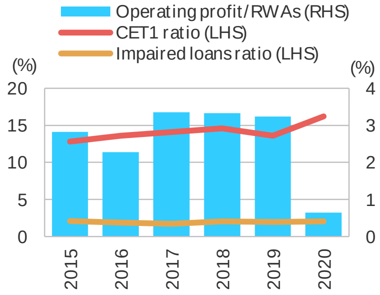
A moderate (around 12%) of the commercial loan book is to sectors affected by the pandemic. The largest sectors in the GBP21.5 billion drawn and undrawn exposures are retail, auto dealerships, and oil & gas. LBG had provided GBP12.4 billion loans through government guaranteed loans schemes (fully, or 80% guaranteed) at end-2020.

The mortgage book's conservative collateralisation provides significant buffer to absorb any increased arrears or house price shocks (the average LTV was below 50% in each product category, and a limited 0.6% of the portfolio had more than 90% LTVs at end-2020). Performance has been resilient to date with low Stage 3 and arrears ratios (although Stage 2 mortgages have increased) and we expect this to continue.

Capital Build-Up Continued; But Challenges Remain

We view the bank as well-capitalised with a fully-loaded CET1 ratio, after expected 2020 dividends, of 15%. Despite upcoming challenges, the ratio should remain above the management's target of around 12.5% plus a management buffer of about 1%, helped by net profitability and expected stable RWAs. On a transitional basis the CET1 ratio was significantly higher at 16.2%.

Longer-Term Performance



Source: Fitch Ratings, LBG

Loan Book and Quality

	Total loans	Stage 2 ratio (%)	Stage 3 ratio (%)	ECL Covg. (%)
Retail - Secured	295.4	13	2	0.5
Retail - Cards	15.1	22	2	6.4
Retail - Loans and overdrafts	9.5	16	3	7.5
Retail - UK Motor Finance	15.2	15	1	3.3
Retail - Other	19.4	7	1	1.2
Commercial - SME	32.3	14	2	1.6
Commercial - Other	56.1	17	5	3.4
Insurance and Wealth	0.9	1	8	2.5
Central Items	61.3	0	0	0.7
Total gross lending	505.7	13	1.8	1.4

Note: including GBP58.6bn reverse repurchase agreements
Source: Fitch Ratings, LBG

We expect CET1 hurdles over the next quarters from declining IFRS 9 transitional relief on increased Stage 3 inflows (120bp recognised in end-2020 metrics), reversal of about 50bp software intangibles effect, as well as the resumption of dividends.

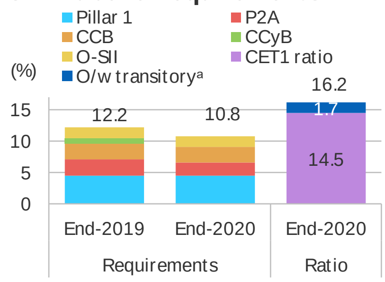
The group's capital requirements decreased in 2020 due to a lower pillar 2A charge (2.1% of RWAs, to remain fixed in nominal terms in 2021) and a 0% countercyclical buffer rate until at least 4Q22.

Strong Deposit Franchise; Deposit Inflows in 2020 Flatter Metrics

LBG's funding remains strong, supported by the group's large deposit base and its leading retail franchise. The Fitch-calculated loans-to-deposits ratio improved to 99% (2019:108%) owing to a 9% increase in customer deposits. Liquidity was boosted with LCR increasing to 136% and eligible high-quality assets to GBP142 billion (4.1x wholesale funding maturing in one year).

LBG's MREL ratio was 36.4%, was well above the January 2022 requirement of 27.8%, including buffers, creating limited near-term issuance needs (mainly GBP5 billion holdco senior). Opco issuance plans are relatively low - with minimal LB issuance expected and GBP2 billion from LBCM.

CET1 above Requirements



[a] IFRS9 transitional relief and software intangible benefit

Summary Financials and Key Ratios

	31 Dec 20		31 Dec 19	31 Dec 18	31 Dec 17
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(GBPm)	(GBPm)	(GBPm)	(GBPm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	14,425	10,749.0	10,180.0	13,396.0	10,912.0
Net fees and commissions	1,557	1,160.0	1,406.0	1,462.0	1,583.0
Other operating income	4,317	3,217.0	6,529.0	3,924.0	6,308.0
Total operating income	20,299	15,126.0	18,115.0	18,782.0	18,803.0
Operating costs	12,958	9,656.0	10,220.0	10,980.0	11,046.0
Pre-impairment operating profit	7,341	5,470.0	7,895.0	7,802.0	7,757.0
Loan and other impairment charges	5,576	4,155.0	1,296.0	936.0	688.0
Operating profit	1,765	1,315.0	6,599.0	6,866.0	7,069.0
Other non-operating items (net)	-119	-89.0	-2,206.0	-906.0	-1,794.0
Tax	-216	-161.0	1,387.0	1,560.0	1,728.0
Net income	1,861	1,387.0	3,006.0	4,400.0	3,547.0
Other comprehensive income	148	110.0	-1,126.0	-113.0	-395.0
Fitch comprehensive income	2,009	1,497.0	1,880.0	4,287.0	3,152.0
Summary balance sheet					
Assets					
Gross loans	598,479	445,960.0	443,647.0	447,525.0	450,813.0
- Of which impaired	12,197	9,089.0	8,754.0	9,215.0	7,841.0
Loan loss allowances	7,730	5,760.0	3,259.0	3,150.0	2,201.0
Net loans	590,749	440,200.0	440,388.0	444,375.0	448,612.0
Interbank	10,817	8,060.0	8,220.0	5,781.0	3,503.0
Derivatives	39,741	29,613.0	26,369.0	21,632.0	23,486.0
Other securities and earning assets	396,706	295,608.0	279,962.0	240,153.0	246,564.0
Total earning assets	1,038,012	773,481.0	754,939.0	711,941.0	722,165.0
Cash and due from banks	98,311	73,257.0	55,130.0	54,663.0	58,521.0
Other assets	32,921	24,531.0	23,824.0	30,994.0	31,423.0
Total assets	1,169,244	871,269.0	833,893.0	797,598.0	812,109.0
Liabilities					
Customer deposits	604,774	450,651.0	411,790.0	416,248.0	415,486.0
Interbank and other short-term funding	96,984	72,268.0	68,046.0	73,791.0	87,060.0
Other long-term funding	110,800	82,563.0	91,403.0	84,758.0	72,629.0
Trading liabilities and derivatives	46,920	34,963.0	36,217.0	30,325.0	35,623.0
Total funding	859,478	640,445.0	607,456.0	605,122.0	610,798.0
Other liabilities	239,824	178,706.0	174,504.0	138,269.0	147,665.0
Preference shares and hybrid capital	11,556	8,611.0	10,033.0	10,499.0	9,858.0
Total equity	58,386	43,507.0	41,900.0	43,708.0	43,788.0
Total liabilities and equity	1,169,244	871,269.0	833,893.0	797,598.0	812,109.0
Exchange rate		USD1 = GBP0.745156	USD1 = GBP0.76211	USD1 = GBP0.78768	USD1 = GBP0.74011

Source: Fitch Ratings, Fitch Solutions, LBG

Summary Financials and Key Ratios

	31 Dec 20	31 Dec 19	31 Dec 18	31 Dec 17
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	0.7	3.2	3.3	3.4
Net interest income/average earning assets	1.7	1.7	2.1	1.5
Non-interest expense/gross revenue	63.8	56.4	58.5	58.8
Net income/average equity	3.2	7.0	10.2	7.9
Asset quality				
Impaired loans ratio	2.0	2.0	2.1	1.7
Growth in gross loans	0.5	-0.9	-0.7	1.0
Loan loss allowances/impaired loans	63.4	37.2	34.2	28.1
Loan impairment charges/average gross loans	0.9	0.3	0.2	0.2
Capitalisation				
Common equity Tier 1 ratio	16.2	13.6	14.6	14.1
Fully loaded common equity Tier 1 ratio	15.0	13.3	14.6	14.1
Tangible common equity/tangible assets	4.0	4.0	4.5	4.5
Basel leverage ratio	5.8	4.8	5.1	4.9
Net impaired loans/common equity Tier 1	10.1	19.8	20.1	19.0
Funding and liquidity				
Loans/customer deposits	99.0	107.7	107.5	108.5
Liquidity coverage ratio	136.0	137.0	130.0	127.0
Customer deposits/funding	72.5	69.6	70.1	69.9
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, LBG

Sovereign Support Assessment

LBG's, LB's and BOS's SRs and SRFs reflect Fitch's view that senior creditors cannot rely on extraordinary support from the UK authorities in the event the banks become non-viable. In our opinion, the UK has implemented legislation and regulations that are sufficiently progressed to provide a framework that is likely to require senior creditors participating in losses for resolving even large banking groups.

Support Rating Floor			Value
Typical D-SIB SRF for sovereign's rating level (assuming high propensity)			A or A-
Actual country D-SIB SRF			NF
Support Rating Floor:			**NF**
Support Factors	Positive	Neutral	Negative
Sovereign ability to support system			
Size of banking system relative to economy			✓
Size of potential problem	✓		
Structure of banking system			✓
Liability structure of banking system		✓	
Sovereign financial flexibility (for rating level)	✓		
Sovereign propensity to support system			
Resolution legislation with senior debt bail-in			✓
Track record of banking sector support		✓	
Government statements of support			✓
Sovereign propensity to support bank			
Systemic importance		✓	
Liability structure of bank		✓	
Ownership		✓	
Specifics of bank failure		✓	

Environmental, Social and Governance Considerations

The highest level of ESG credit relevance, if present, is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entities, either due to their nature or to the way in which they are being managed by the entities. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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
GHG Emissions & Air Quality	1	n.a.	n.a.
Energy Management	1	n.a.	n.a.
Water & Wastewater Management	1	n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Company Profile; Management & Strategy; Risk Appetite; Asset Quality

E Scale: 5, 4, 3, 2, 1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
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; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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	Company Profile; Financial Profile

S Scale: 5, 4, 3, 2, 1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy

G Scale: 5, 4, 3, 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.

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.