FitchRatings

Banks
Universal Commercial Banks
United Kingdom

Lloyds Banking Group plc

Key Rating Drivers

Leading UK Bank: Lloyds Banking Group plc's (LBG) ratings reflect its solid, diversified business profile in the UK, supported by its leading retail and business banking franchises and insurance operations. They also reflect consistently solid profitability, strong capitalisation and funding.

Group VR: LBG acts as the holding company for the group, and its Viability Rating (VR) is equalised with that of its core banks, Lloyds Bank plc (LB) and Bank of Scotland plc (BOS), reflecting high integration and low double leverage. The subsidiaries' Long-Term Issuer Default Ratings (IDRs) are one-notch higher than the VRs to reflect available resolution debt buffers.

Conservative Risk Profile: LBG's risk profile is underpinned by the high share of low-risk mortgage lending (end-3Q24: 68% of loans) with low loan-to-value (stock average: 43%). Higher-risk unsecured consumer loans (6% of loans) and commercial lending (19%) increase risks, although they are mitigated by conservative underwriting standards. LBG's strong and resilient performance through economic cycles is underpinned by its robust risk controls.

Asset Quality to Remain Strong: We expect LBG's asset quality to remain strong with the impaired loans ratio (end-3Q24: 2.2%) remaining close to 2% by end-2026, supported by the improving macroeconomic outlook and sound underwriting standards. Loan impairment charges (LICs) should remain easily absorbable given the largely secured loan book.

Consistently Solid Profitability: LBG's profitability has been consistently strong and compares well with large UK and European peers. Its operating profit/risk-weighted assets (RWAs) ratio moderated to 3.1% in 9M24, largely driven by lower net interest income (NII), but we expect it to remain strong at over 3% in 2025-2026 supported by structural hedge income, falling funding costs and contained LICs. Revenue diversification and strategic investments to boost non-interest income should also support earnings.

LBG's loss absorption capacity is significant, given we forecast annual pre-impairment operating profit of about GBP8 billion in 2025-2026. This provides LBG a solid buffer to absorb redress costs that may arise from the motor finance review or from the Court of Appeal ruling.

Strong Capitalisation: We expect LBG's capitalisation to remain strong and commensurate with its rating despite its target to reduce the common equity Tier 1 (CET1) ratio (end-3Q24: 14.3%) to 13% by end-2026. Our assessment is supported by LBG's solid capital generation and prudent risk management. LBG could also retain capital in case of a new significant requirement for provisions against the motor finance review to support capital ratios.

Sound Funding and Liquidity: LBG's funding and liquidity profile is sound, supported by a large and granular deposit base and leading franchise. We expect the loans/deposits ratio (end-3Q24: 97%) to remain broadly stable and we expect liquidity to remain strong. Funding stability is underpinned by proven access to diversified wholesale funding and contingent Bank of England facilities.

LBG's Short-Term IDR of 'F1' is the lower of two options mapping to the 'A+' Long-Term IDR, as our assessment of the group's funding and liquidity profile does not warrant a higher rating. The Short-Term IDRs of LBG's subsidiaries are at 'F1+', the only option for 'AA-' Long-Term IDRs.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	a+
Government Support Rating	ns

Sovereign Risk (United Kingdom)

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

Outlooks

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

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Upgrades Lloyds Banking Group to 'A+'; Outlook Stable (November 2024)

Major UK Banks' Robust Fundamentals Mitigate Market Uncertainty, Lower Rates (November 2024)

LBG's Structural Hedge Underpins Robust Profits (October 2024)

Fitch Affirms United Kingdom at 'AA-'; Outlook Stable (September 2024)

Global Economic Outlook (September 2024)

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Rating Sensitivities

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

LBG's ratings could come under pressure if the impact of the FCA motor finance review and the broader implications of the recent court ruling is more significant than we currently expect, particularly if remediation costs materially affect earnings, capital ratios and strategic execution over a prolonged period.

LBG's ratings could also come under pressure if we expected the four-year average impaired loans ratio to increase above 3% without a clear path to reduction, and a sustained deterioration in operating profit to below 2.5% of RWAs that also led to the CET1 ratio falling below 13% on a sustained basis.

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

A further upgrade of LBG's ratings is currently unlikely, given the group's high concentration in the UK market. An upgrade would, therefore, require a significant strengthening of the UK operating environment, together with a substantial strengthening of the group's business profile, coupled with a continued record of solid operating profitability, strong asset quality and capitalisation.

Other Debt and Issuer Ratings

Rating Level	LBG	LB	BOS	HBOS plc	LBCM
Senior unsecured debt long-term/short-term	A+/F1	AA-/F1+	AA-		AA-/F1+
Tier 2 subordinated debt	A-	A-		A-	
Legacy upper Tier 2 debt	BBB+	BBB+	BBB+	BBB+	-
Legacy innovative Tier 1 non-discretionary/preference stock	BBB	-	-	-	-
Additional Tier 1 debt	BBB				

LBCM: Lloyds Bank Corporate Markets plc
Source: Fitch Ratings

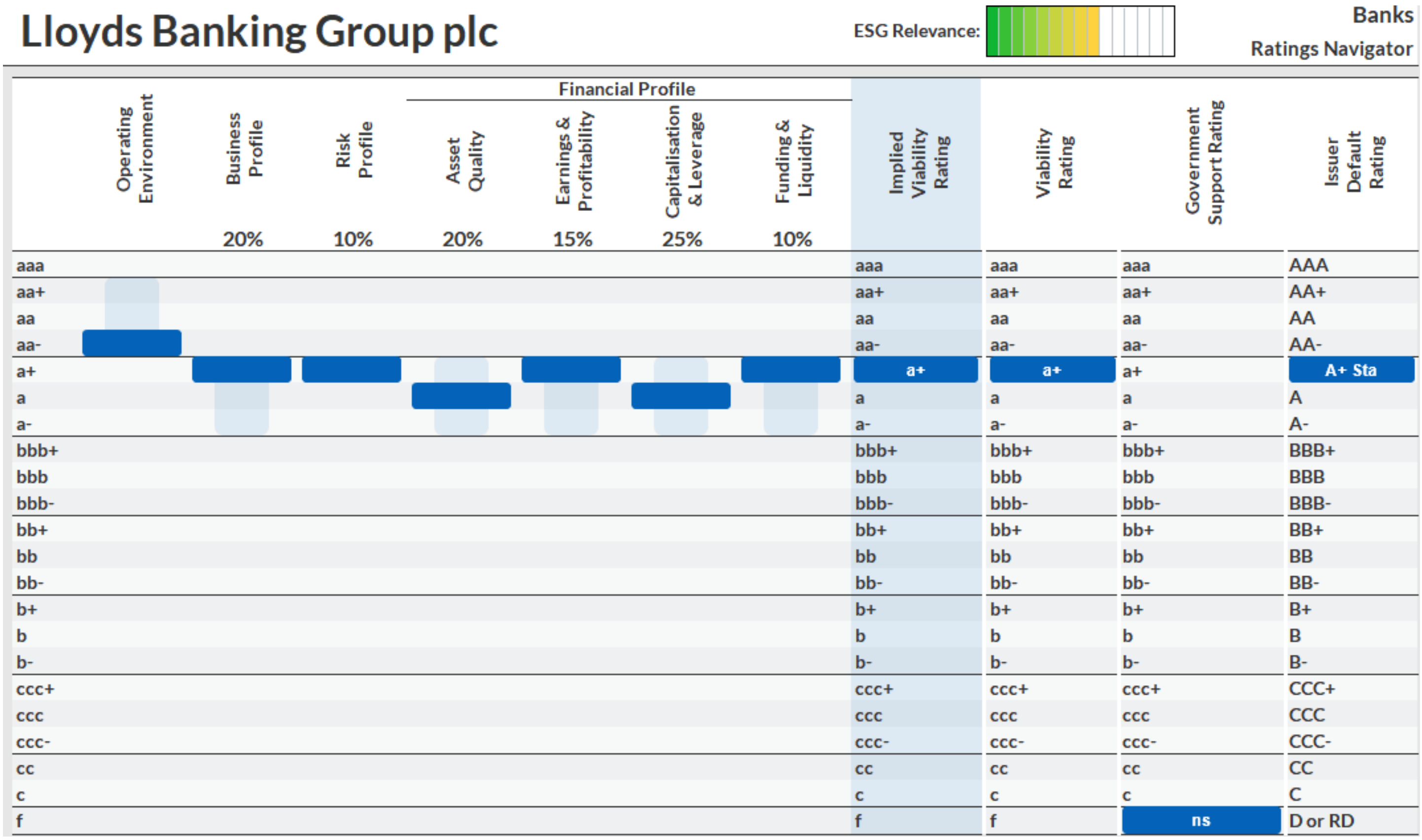
The long-term senior unsecured debt and DCR of LBG and of its subsidiaries, where applicable, are in line with the respective Long-Term IDRs.

Tier 2 debt issued by LBG, LB and HBOS is rated two notches below their VRs (LBG's VR for 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 are four notches below the anchor VR, two each for loss severity and incremental non-performance risk. Our assessment is based on the group operating with a CET1 ratio comfortably above the maximum distributable amount thresholds and we expect this will continue.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

Company Summary and Key Qualitative Factors

Business Profile

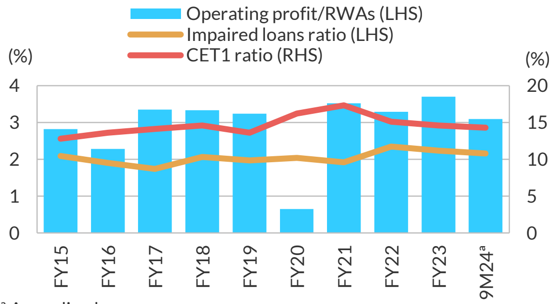
LBG's business profile benefits from its leading market shares in the UK and diversification into retail, business and insurance operations. As the UK's largest domestically focused bank, it controls about a fifth of total mortgage lending, and its market shares in consumer cards, retail deposits and SME/commercial lending are also strong. LBG's stable business model and diversification by product underpin its long record of solid profitability, including during years of low interest rates, despite geographic concentration in the UK.

Mortgage loans were about two thirds of total loans at end-3Q24; unsecured lending and UK motor finance loans formed a moderate 9% of gross loans, although their contribution to earnings is higher given higher margins. The commercial banking segment focuses on UK-based SMEs and corporate clients. LBG's insurance services are run under the Scottish Widows Limited (A/Stable) brand and cover a range of products, making the group one of the top UK providers of life and home insurance and pensions and investments.

LBG's current strategic objectives are primarily aimed at achieving a higher growth potential, income diversification (including in wealth and insurance and business and commercial banking) and greater cost efficiencies through digitisation and a reduction in property footprint. In consumer banking, LBG is aiming to increase its share of wallet with existing customers and to attract new customers, notably in the mass affluent segment, gradually increasing the group's market share in non-mortgage segments. In the SME banking segment, LBG is aiming to advance its products and sectors, where its current market share is relatively low, and to digitise further. Selective growth is also targeted in corporate and institutional segment.

The recent UK Court of Appeal ruling in favour of customers regarding commissions that lenders pay to car dealerships for arranging loans, and the FCA's review into historical motor finance lending, both raise considerable uncertainty and potentially significant implications for bank lenders, including for LBG. Notwithstanding this uncertainty, LBG's ratings reflect its very strong loss-absorption capacity against potential customers' redress costs and the historically low share of motor finance in its business mix.

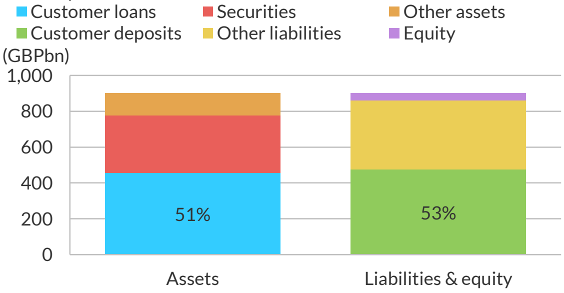
Performance Through the Cycle



[a] Annualised
Source: Fitch Ratings, Fitch Solutions, LBG

Balance Sheet

End-Sept 2024



Source: Fitch Ratings, Fitch Solutions, LBG

Risk Profile

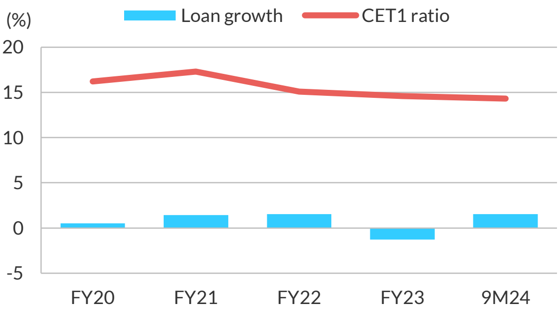
LBG's underwriting standards are conservative and consistent with the bank's long-term strategy, and, in our view, risk controls, limits and reporting tools are robust. Low LTV mortgages dominate the loan book providing a solid buffer against potential declines in house prices, although Fitch expects modest house price growth in 2025.

Loan book growth picked up in 9M24, driven by falling interest rates and improved macroeconomic outlook. Within the loan book, UK mortgages, unsecured loans and motor finance expanded year to date, with commercial lending contracting, largely driven by continued repayment of government-backed lending by SMEs. We expect loan growth to accelerate in 2025 and for demand to be supported by lower interest rates and improved consumer sentiment. Growth in balance-sheet-light insurance and wealth activities is also likely to recover given the improving economic outlook and strategic investments.

Market risk arises mainly from structural interest-rate risk in the banking book, in line with the bank's lending focus, which is appropriately managed through hedging. Interest-rate risk is also mitigated by the group's structural hedge comprising of net liabilities, which are stable or less sensitive to movements in rates. The end-3Q24 structural hedge had a nominal balance of GBP242 billion down from GBP247 billion at end-2023 and a weighted average duration of about three-and-a-half years. The nominal balance is declining, driven by the changing deposit mix, but the decline is slowing. The structural hedge provides significant support to LBG's NII, particularly as interest rates fall.

Residual value risk has increased in auto finance as used car prices are softening, after recent years of strong growth, and as competition in the electric vehicle segment has intensified and put pressure on prices.

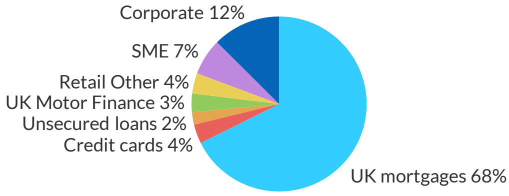
Loan Growth



Source: Fitch Ratings, Fitch Solutions, LBG

Loan Book Composition

End-3Q24



Source: Fitch Ratings, LBG

Financial Profile

Asset Quality

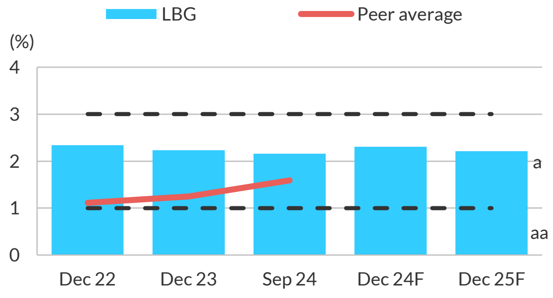
LBG's loan book is heavily concentrated in the domestic market, but is fairly diversified by product. Asset quality has proven resilient to slow economic growth and a significant increase in interest rates and associated costs for the borrowers. Loan performance across portfolios has been similar to or better than pre-pandemic levels. Stage 2 loans continued to decrease and were 9.5% at end-3Q24 (end-2022: 14%), largely reflecting the improving economic outlook in the UK.

LBG's Stage 3 loans ratio was 2.2% at end-3Q24, slightly higher than other large UK peers'. This is partly due to legacy Stage 3 purchased or originated credit-impaired (POCI) loans from HBOS acquisition, which are not reflective of LBG's current risk appetite or underwriting standards. Excluding these, LBG's Stage 3 loans ratio would drop to 1.6% at end-1H24, more in line with peers'.

We expect asset quality to remain strong over the next two years, given decreasing interest rates, easing inflationary pressures and Fitch's expectation of UK GDP growth of 1.5% in 2025. Our expectation also factors in LBG's continued problem loan recoveries. However, we expect non-performance rates to be relatively higher in the bank's more vulnerable portfolios, such as credit cards and unsecured retail lending.

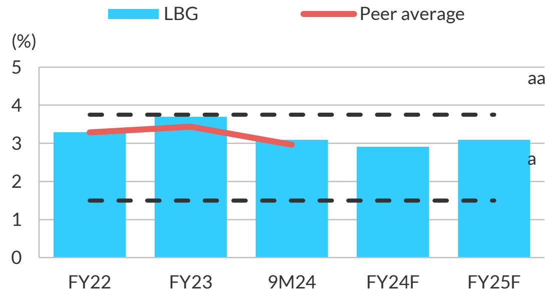
LICs/average gross loans ratio of 8bp in 9M24 (2023: 7bp) is low, supported by improving macroeconomic conditions and a debt sale of unsecured retail loans. We expect LICs to be about 20bp in 2025, which should be easily absorbable.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

LBG's resilient earnings record through the cycle compares favourably with peers. Having peaked in 2023, operating profitability as expressed by the operating profit/RWAs moderated this year to about 3% (2023: 3.5%) with the benefits of lower risk charges offset by lower NII. High cost growth was partially offset by growth in other income, reflecting the results of LBG's strategic initiatives.

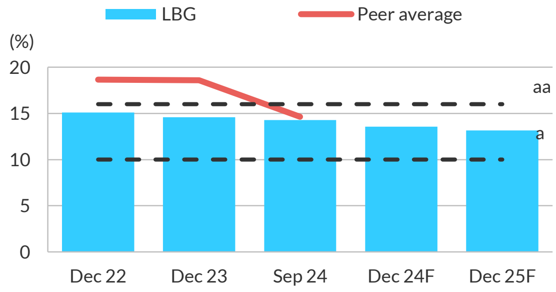
We expect recovering demand dynamics and still high interest rates to continue to support the bank's profitability, particularly with the support of structural hedges as they are reinvested at higher rates. LBG's net interest margin (NIM) reversed its trend in 3Q24, showing an increase as growing structural hedge contributions more than offset pressures from the ongoing, albeit slowing, deposit migration and tight asset margins. We expect LBG's recurring profitability, including its NIM, to improve slightly in 2025-2026, and LICs to remain contained in the forecast years. Potential further provisions required for customer redress schemes could affect LBG's net income.

Capitalisation and Leverage

LBG's capitalisation is underpinned by the bank's sound ability to generate profits, a loan book dominated by lower-risk mortgage loans with contained through-the-cycle LICs and RWA density that is comparable to peers.

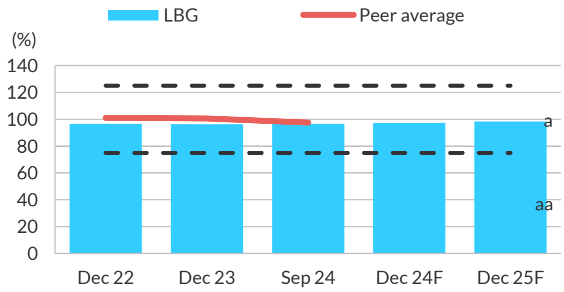
The group's CET1 ratio increased to 14.3% at end-3Q24 from pro-forma 13.7% at end-2023 as capital generation more than offset an increase in RWAs and dividend distribution. The ratio offers a significant buffer above the bank's regulatory requirement of about 12%, and the bank's UK leverage ratio at 5.5% is solid. LBG regularly makes use of capital-efficient securitisation activities, which helps manage its RWA increases. We do not expect RWA inflation from credit deterioration. LBG expects Basel end-game rules to have a small positive effect when implemented in January 2026. The bank is completing a GBP2 billion buyback programme this year, and remains committed to dividends and further excess capital distributions as it reduces the CET1 ratio to its target ratio of 13% by end-2026.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

LBG's funding is stable, supported by leading market shares in current accounts and savings. The gross loans-to-deposits ratio deteriorated slightly yoy to 97% in 3Q24 as deposits grew slower than loans, but the ratio is still significantly below the level observed before the pandemic (end-2019: 108%). The deposit shift towards savings accounts is easing with falling interest rates, which should support funding costs.

LBG has shown solid wholesale funding access and is a regular issuer across different instruments and currencies. Its wholesale funding maturities are well-spread and the bank expects its 2025 refinancing needs to be broadly similar to those in 2024 (of about GBP11 billion).

LBG had GBP30 billion of Bank of England TFSME facilities outstanding, corresponding to less than 5% of total funding at end-3Q24. Most of its TFSME exposure (GBP21 billion) matures in 2025, with the rest in 2027, which is manageable, in our view, given the strength of LBG's funding franchise, and is factored into the bank's issuance plans.

Liquidity is well-managed and robust, supported by a large pool of high-quality liquid assets (end-3Q24: GBP135 billion; 28% of customer deposits), a significant proportion of which are in the form of cash and cash equivalents or high-quality government bonds. There is also GBP75 billion of available borrowing capacity at the central banks, providing additional support.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market. To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Peer average includes NatWest Group plc (VR: a), Santander UK Group Holdings plc (a), Nationwide Building Society (a). Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report. Financial year-end for Nationwide Building Society is 4 April. Latest average uses 1H24 data for Nationwide Building Society.

Financials

Summary Financials

	30 September 2024				
	9 months - 3rd quarter (USDm) Not disclosed	9 months - 3rd quarter (GBPm) Not disclosed	31 December 2023 Year end (GBPm) Audited - unqualified	31 December 2022 Year end (GBPm) Audited - unqualified	31 December 2021 Year end (GBPm) Audited - unqualified
Summary income statement					
Net interest and dividend income	12,233	9,125	13,298	13,957	9,366
Net fees and commissions	n.a.	n.a.	1,831	1,503	1,423
Other operating income	5,835	4,352	4,069	2,749	5,535
Total operating income	18,068	13,477	19,198	18,209	16,324
Operating costs	10,775	8,037	10,778	9,781	10,802
Pre-impairment operating profit	7,293	5,440	8,420	8,428	5,522
Loan and other impairment charges	365	272	313	1,500	-1,380
Operating profit	6,928	5,168	8,107	6,928	6,902
Other non-operating items (net)	-28	-21	-604	n.a.	n.a.
Tax	1,837	1,370	1,985	1,373	1,017
Net income	5,064	3,777	5,518	5,555	5,885
Other comprehensive income	n.a.	n.a.	110	-6,829	-950
Fitch comprehensive income	5,064	3,777	5,628	-1,274	4,935
Summary balance sheet					
Assets					
Gross loans	617,376	460,505	453,485	459,417	452,387
- Of which impaired	13,357	9,963	10,110	10,753	8,694
Loan loss allowances	4,739	3,535	3,717	4,518	3,820
Net loans	612,637	456,970	449,768	454,899	448,567
Interbank	n.a.	n.a.	10,764	10,632	7,001
Derivatives	26,779	19,975	22,356	24,753	22,051
Other securities and earning assets	428,604	319,699	294,450	267,506	306,733
Total earning assets	1,068,021	796,644	777,338	757,790	784,352
Cash and due from banks	79,172	59,055	78,110	91,388	76,420
Other assets	60,521	45,143	26,005	28,651	25,753
Total assets	1,207,714	900,842	881,453	877,829	886,525
Liabilities					
Customer deposits	637,797	475,737	471,396	475,331	476,344
Interbank and other short-term funding	63,356	47,258	82,013	86,877	66,851
Other long-term funding	147,903	110,322	70,544	64,101	69,394
Trading liabilities and derivatives	22,485	16,772	21,723	30,760	26,221
Total funding and derivatives	871,542	650,089	645,676	657,069	638,810
Other liabilities	273,938	204,332	187,946	172,769	192,414
Preference shares and hybrid capital	7,910	5,900	7,406	5,767	8,055
Total equity	54,324	40,521	40,425	42,224	47,246
Total liabilities and equity	1,207,714	900,842	881,453	877,829	886,525

Source: Fitch Ratings, Fitch Solutions, LBG

Key Ratios

	30 September 2024	31 December 2023	31 December 2022	31 December 2021
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.1	3.7	3.3	3.5
Net interest income/average earning assets	1.6	1.8	1.8	1.3
Non-interest expense/gross revenue	59.6	56.1	53.7	66.2
Net income/average equity	12.5	13.4	12.6	13.0
Asset quality				
Impaired loans ratio	2.2	2.2	2.3	1.9
Growth in gross loans	1.6	-1.3	1.6	1.4
Loan loss allowances/impaired loans	35.5	36.8	42.0	43.9
Loan impairment charges/average gross loans	0.1	0.1	0.3	-0.3
Capitalisation				
Common equity Tier 1 ratio	14.3	14.6	15.1	17.3
Fully loaded common equity Tier 1 ratio	14.3	14.5	14.9	16.9
Tangible common equity/tangible assets	4.5	3.2	3.4	4.3
Basel leverage ratio	5.0	5.2	4.9	5.2
Net impaired loans/common equity Tier	20.1	20.0	19.6	14.4
Funding and liquidity				
Gross loans/customer deposits	96.8	96.2	96.7	95.0
Gross loans/customer deposits + covered bonds	n.a.	93.4	93.8	91.6
Liquidity coverage ratio	144.0	142.0	144.0	135.0
Customer deposits/total non-equity funding	74.4	74.5	74.4	75.8
Net stable funding ratio	129.0	130.0	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, LBG

Support Assessment

Commercial Banks: Government Support	
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

The Government Support Ratings (GSRs) of 'no support' for LBG, LB and BOS reflect Fitch's view that senior creditors cannot rely on extraordinary support from the UK authorities if these issuers become non-viable, due to UK legislation and regulations that provide a framework requiring senior creditors to participate in losses after a failure.

Subsidiaries and Affiliates

Rating Level	LBG	LB	BOS	HBOS plc	LBCM	LBCMW	LGmbH
Long-Term IDR/Outlook	A+/Stable	AA-/Stable	AA-/Stable	AA-/Stable	AA-/Stable	AA-/Stable	AA-/Stable
Short-Term IDR	F1	F1+	F1+	F1+	F1+	F1+	F1+
Viability Rating	a+	a+	a+	-	-	-	-
GSR/SSR	ns	ns	ns	a+	a+	a+	aa-
Derivative Counterparty Rating	-	AA-(dcr)	AA-(dcr)	-	AA-(dcr)	-	-

LB, BOS, HBOS and Lloyds Bank GmbH (LGmbH) are the ring-fenced entities of the group; Lloyds Bank Corporate Markets plc (LBCM) and Lloyds Bank Corporate Markets Wertpapierhandelsbank GmbH (LBCMW) are the group's non-ring-fenced entities.
GSR: Government Support Rating; SSR: Shareholder Support Rating
Source: Fitch Ratings

Core Subsidiaries; Opco Rating Uplift

The 'a+' Shareholder Support Ratings (SSRs) of HBOS, LBCM and LBCMW reflect a very high probability of shareholder support in case of need, given their strategic roles in the wider group, high level of ownership by LBG and reputational risks for LBG in case of their potential default. LGmbH's 'aa-' SSR reflects its direct and strategic ownership by LB.

The 'AA-' Long-Term IDRs of LB and BOS are notched up once from their VRs to reflect the presence of a large buffer of qualifying junior debt and senior holding company debt downstreamed in a subordinated manner, underpinned by minimum requirement for own fund and eligible liabilities regulations. We also incorporate this benefit into the IDRs of HBOS, LBCM, LBCMW and LGmbH. These entities have not been assigned VRs as Fitch believes that these entities cannot be assessed meaningfully on a standalone basis. Their IDRs reflect a very high probability of shareholder support from LBG, if needed.

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
not a rating driver	5	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

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

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

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

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

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

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

CREDIT-RELEVANT ESG SCALE

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

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

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

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

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