FitchRatings

Banks
Retail & Consumer Banks
New Zealand

Nelson Building Society

Key Rating Drivers

VR Underpins IDRs: Nelson Building Society's (NBS) Long-Term Issuer Default Ratings (IDRs) are driven by its Viability Rating (VR), which reflects sound asset quality and strong profitability among non-bank deposit takers (NBDTs) in New Zealand. This is partly offset by a small domestic franchise. The VR is below the implied VR of 'bbb-' due to the society's weaker core capitalisation relative to peers.

Improved Capitalisation: Fitch Ratings expects a steady organic improvement in NBS's capital ratios over the next two years, supported by its profitability. We maintain the positive outlook on the 'bb' factor score as the Reserve Bank of New Zealand (RBNZ) has finalised a capital instrument for use by mutual banks and NBDTs in New Zealand, which may allow NBS to bolster its Fitch Core Capital (FCC) ratio more quickly and address the weakness in its VR.

The negative adjustment on the implied VR reflects the high influence of NBS's capitalisation factor score, as capitalisation is its weakest financial profile factor.

Economic Growth to Slow: We expect slower economic growth in New Zealand in 2024. The higher cost of living is likely to put pressure on borrowers, although we expect unemployment to remain resilient, supporting borrower repayment capacity. This underpins the stable outlook on our operating environment score of 'a-' for NBDTs, which is below the 'aa' category score implied by Fitch's criteria to reflect New Zealand's high household debt. Our assessment also incorporates the less stringent regulatory oversight of NBDTs relative to registered banks.

Small, Stable Franchise: NBS's business profile factor score of 'bb+' is above the 'b' category implied score, reflecting the society's simple business model that focuses on the provision of lower-risk residential mortgages and secured loans to small businesses. This offsets its modest franchise and limited pricing power. NBS is the largest NBDT in New Zealand by total assets, but its lending market share (less than 0.2%) is insignificant in the national context.

Credit Risk Drives Risk Profile: NBS's main risk is credit risk, which stems from its loan portfolio, and this appears to be well-managed by the society. Residential mortgages continue to be the largest exposure, accounting for 62% of gross loans at the end of the financial year to March 2023 (FYE23). We do not expect the society's risk appetite to change materially in the next two years, underpinned by its long-standing business model.

Some Asset-Quality Pressure: We expect NBS to face some asset-quality pressure over the next two years as sharply higher interest rates and inflation affect borrowers' repayment capability. However, low unemployment in New Zealand should limit deterioration in asset quality. NBS's asset-quality factor score of 'bbb' is lower than the implied 'a' category to reflect product and geographical concentration in the loan portfolio.

Earnings Pressure: We expect NBS's earnings to face some pressure in the next two years as the interest-rate cycle peaks, competition for loans remains intense and funding costs rise. Higher operating expenses will also squeeze earnings. We forecast the four-year average of the operating profit/risk-weighted assets ratio to be around 1.4% through to FY25. These metrics should remain broadly consistent with our current earnings and profitability factor score of 'bbb', and we have maintained the stable outlook to reflect this.

Steady Funding Profile: We expect NBS's funding profile to remain generally stable over the next two years, with deposit growth broadly in line with its loan growth. The funding and liquidity score of 'bbb-' is below the 'a' category implied score to reflect the society's lack of access to the RBNZ's liquidity facilities.

Ratings

Foreign Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB+
Short-Term IDR	B
Viability Rating	bb+
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
Long-Term Local-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Fitch Revises Outlook on Nelson Building Society to Stable from Positive; Affirms at 'BB+' (January 2024)

Asia-Pacific Developed Market Banks Outlook 2024 (November 2023)

DM100 Banks Tracker - End-1H23 (November 2023)

Analysts

Nikkita Lok
+61 2 8256 0345
nikkita.lok@fitchratings.com

Tim Roche
+61 2 8256 0310
tim.roche@fitchratings.com

Rating Sensitivities

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

NBS's Long-Term IDRs and VR may be downgraded if there is a weakening in the business profile, potentially reflected in growth in deposits and loans that is persistently below the pace of the system, ongoing above-system net interest margin attrition due to the need to price more sharply to compete, or a prolonged deterioration in the loan/customer deposit ratio. Growing regulatory and investment burdens in an increasingly digitised market may reduce NBS's competitive standing and pressure the business profile assessment. This may, in turn, prompt NBS to increase its appetite for riskier exposures, resulting in greater earnings volatility and pressure on capitalisation through the cycle.

The above scenario may be reflected in a combination of the following:

- Stage 3 loans/gross loans increasing above 3% for a sustained period (FY20-FY23 average: 0.4%);
- Operating profit/risk-weighted assets falling below 0.5% for a sustained period (FY20-FY23 average: 1.8%);
- The regulatory total capital ratio declining below 9.5% without a credible plan to replenish regulatory capital buffers (13.3% at end-September 2023);
- The four-year average of the loan/customer deposit ratio sustained significantly above 100% (FY20-FY23 average of 86.7%).

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

The ratings may be upgraded if the society can increase its regulatory capital ratio to above 15% or its FCC ratio to around 14% and sustain it at this level, while at the same time, improving its business profile without weakening other aspects of its credit profile.

Other Debt and Issuer Ratings

Short-Term IDRs

The Short-Term IDRs map to the Long-Term IDRs.

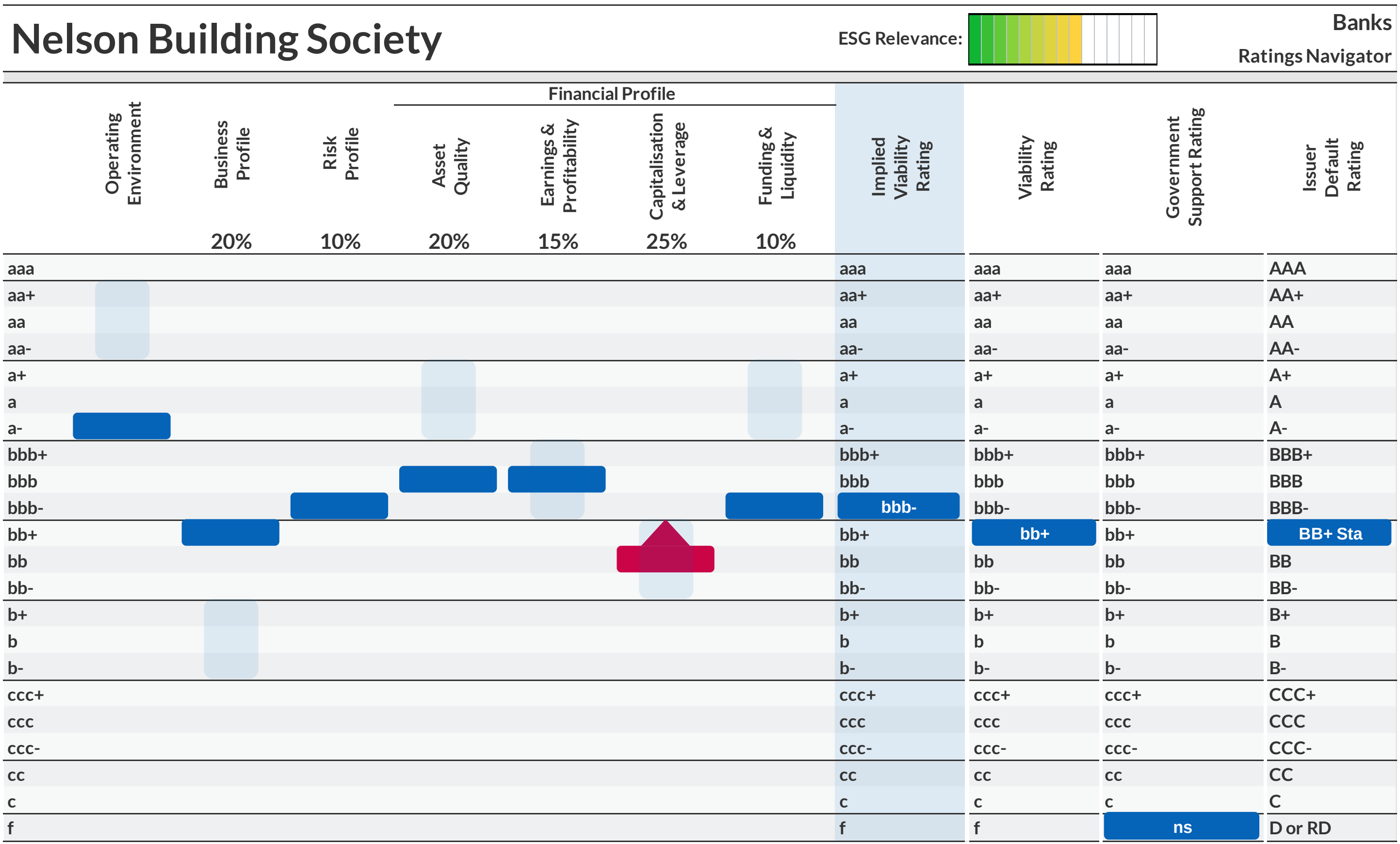
Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

A downgrade of the Short-Term IDRs appears unlikely, as this would require a downgrade of the Long-Term IDRs to 'CCC+' or below.

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

An upgrade of the Short-Term IDRs would require an upgrade of the Long-Term IDRs to at least 'BBB-'.

Ratings Navigator



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

VR - Adjustments to Key Rating Drivers

The VR of 'bb+' has been assigned below the 'bbb-' implied VR because of the following adjustment reason: weakest link – capitalisation and leverage (negative).

The operating environment score of 'a-' has been assigned below the 'aa' category implied score because of the following adjustment reason: level and growth of credit (negative), regulatory and legal framework (negative).

The business profile score of 'bb+' has been assigned above the 'b' category implied score because of the following adjustment reason: business model (positive).

The asset-quality score of 'bbb' has been assigned below the 'a' category implied score because of the following adjustment reason: concentrations (negative)

The funding and liquidity score of 'bbb-' has been assigned below the 'a' category implied score because of the following adjustment reason: liquidity access and ordinary support (negative).

Company Summary and Key Qualitative Factors

Operating Environment

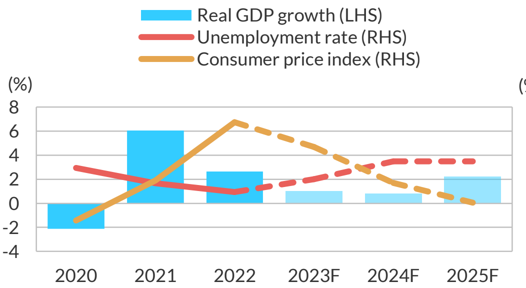
We expect New Zealand's GDP growth to slow further in 2024 as the full effect of rapid interest-rate increases from 2021 to 2023 to tackle high inflation is felt by the economy. We expect unemployment to rise to around 5% as a result. Losses for banks and NBDTs should be manageable at this level, which underpins the stable operating environment outlook. The unemployment rate rose by 30bp qoq to 3.9% in the quarter ending September 2023.

House prices fell through 2022 and 2023 after rapid increases during 2020 and 2021, although there have been signs of recovery in recent months. The RBNZ's macroprudential limits should limit losses for banks should unemployment increase much more significantly than we expect and lead to increased stress among mortgagees. Most NBDTs have remained reasonably conservative in their underwriting and largely adhered to these guidelines even though they are not subject to the rules.

New Zealand has high household leverage relative to many other countries, although this has improved through 2022 and 2023. Household debt/disposable income was 165% at end-June 2023, down from a cyclical high of 175% at end-March 2022 and the lowest level since September 2014.

New Zealand Economy

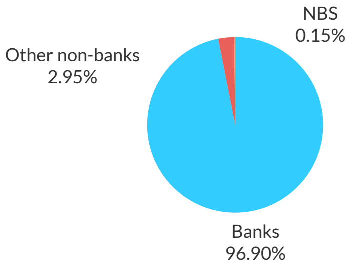
Year end



Source: Fitch Ratings, Fitch Solutions

Market Share

Total assets, end-September 2023



Source: Fitch Ratings, RBNZ, NBS disclosures

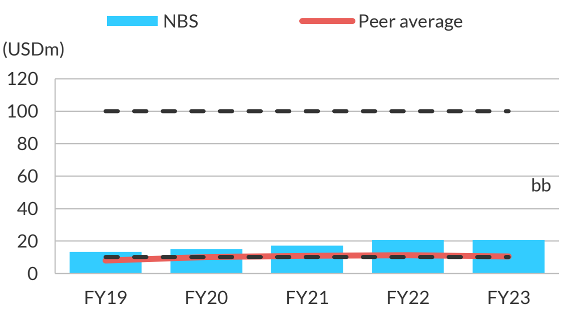
Business Profile

NBS is a building society established in 1862 with its headquarters in Nelson, New Zealand. It has a low-risk and stable business model of providing lending, deposits and other financial services to households and small businesses.

The society's market share was less than 0.2% of total banking and NBDT system assets at end-September 2023. Its small size relative to larger peers means it is generally a price taker in its core markets. However, the society benefits from greater customer loyalty, particularly in the Nelson and Tasman regions, and has a competitive advantage from its service offering.

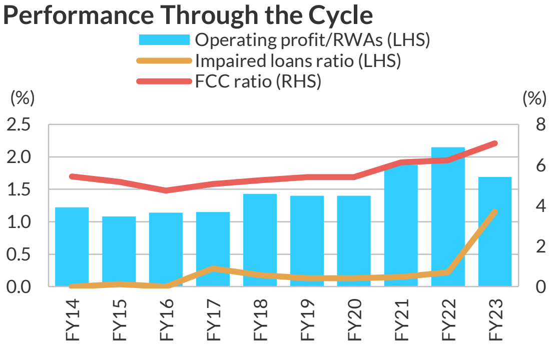
NBS's strategic objectives are supporting members and providing high-quality service. The society has a successful track record of executing objectives. Fitch views the management's depth and experience as adequate for the size and complexity of its operations.

Total Operating Income



Source: Fitch Ratings, Fitch Solutions, banks

Performance Through the Cycle



Source: Fitch Ratings, Fitch Solutions, NBS

Risk Profile

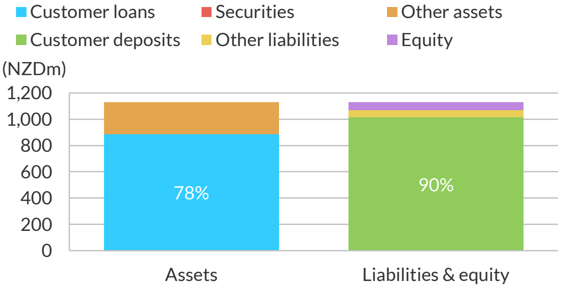
Credit risk remains NBS's primary risk, with loans accounting for 78% of its total assets at 31 March 2023. The society's underwriting standards and serviceability assessment are generally in line with industry practice. The loan book is generally low risk, as it is weighted towards mortgages with loan-to-value ratios (LVR) below 80%.

NBS also provides business loans secured primarily by residential, commercial or agricultural properties. These loans have a higher risk profile than residential mortgages and are likely to result in greater losses through a cycle. However, we believe the risks associated with these loans are adequately addressed through NBS's control and limit framework.

We expect market risk to remain modest, as NBS does not engage in trading activities. The society appears to manage operational risk well, having taken appropriate testing and mitigation actions to prevent cyber and other non-financial risks.

Balance Sheet

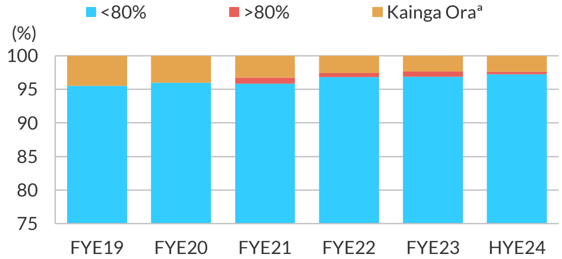
End-2023



Source: Fitch Ratings, Fitch Solutions, NBS

Mortgage by LVR

On and off balance sheet



[a] Government guaranteed
Source: Fitch Ratings, NBS

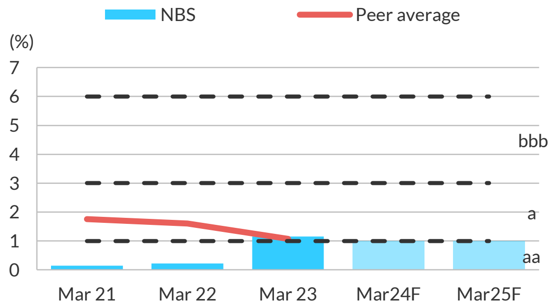
Financial Profile

Asset Quality

NBS’s asset quality is likely to face some pressure in the next few years as higher interest rates and inflation affect borrowers. However, low unemployment and NBS’s focus on lower LVR residential mortgages should limit losses. We expect the stage 3 loan/gross loan ratio to remain at around 1% over 2024. Loan-loss allowance coverage was 62% at FYE23 and appears adequate in light of the high collateral cover over the society’s loan book.

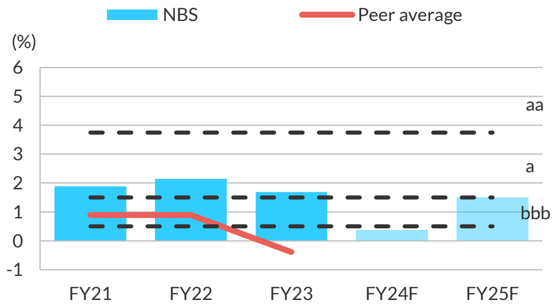
NBS's limited franchise and regional focus leaves its asset quality more susceptible to losses in the case of a regional downturn. The concentration risk is reflected in NBS's assigned factor score of 'bbb', which is lower than the implied 'a' category score.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

We expect NBS’s net interest margin to decline over the next two years due to the peaking interest-rate cycle, intensifying competition for loans, slowing loan growth and increase in funding costs. The society’s operating expenses are likely to increase in FY24, driven by costs associated with its compliance review under the Credit Contracts and Consumer Finance Act 2003, and we forecast that the operating profit/risk-weighted assets ratio will decline to about 0.4% in FY24. However, we believe these costs should not be repeated and we forecast an improvement in the core metric to around 1.5% in FY25.

NBS’s four-year average of the core metric is likely to be stronger than that of its NBDT peers over the next two years. Downside risks stem largely from the operating environment, such as economic growth slowing more rapidly than we forecast, resulting in a greater increase in unemployment and therefore higher impairment charges.

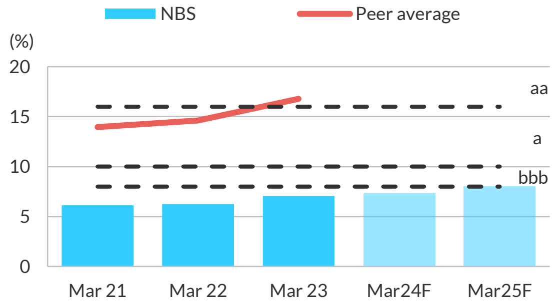
Capital and Leverage

NBS’s capitalisation remains a weakness for the rating and is the reason we adjust the VR down from the ‘bbb-’ implied VR. Nevertheless, we expect NBS’s profitability to support capital accumulation over the next two years, resulting in continued improvement in the building society’s FCC ratio of 7.1% at FYE23. The total capital ratio is the only regulatory capital ratio that NBDTs like NBS are subject to. The society reported a total capital ratio of 13.3% at end-September 2023, well above the 8% regulatory minimum.

NBS issues perpetual preference shares to supplement its core capital, which consists almost entirely of retained earnings due to its status as a mutual society. The non-redeemable and non-cumulative capital instruments can make up 100% of the society’s regulatory capital base, and comprised 45% of total capital at end-September 2023.

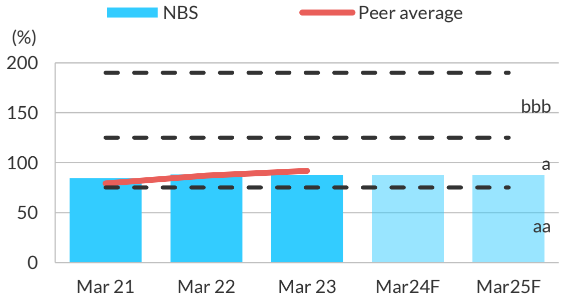
The RBNZ’s new mutual capital instrument qualifies as common equity Tier 1 and provides another option for NBS to bolster its FCC ratio. Access to the new instrument underpins our positive factor outlook on the capitalisation score. It may allow the society to build its FCC ratio towards peer levels more quickly than through retaining earnings alone.

FCC Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

We expect the loan/customer deposit ratio to remain at around 88% through to FYE25. The factor score is below the implied 'a' category as NBDTs like NBS do not have access to the RBNZ's lender-of-last-resort liquidity facilities, leaving it reliant on balance-sheet assets and market-based facilities in times of stress.

We believe the society will continue to be funded entirely by member deposits. The deposit base has a moderate level of individual concentration, although geographic concentration remains high, reflecting its business model. Liquidity is generally well managed, with liquid assets primarily in the form of cash and bank deposits.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macroeconomic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category. Light-blue columns represent Fitch's forecasts.

The peer average includes First Credit Union (VR: bb), Unity Credit Union (b), Wairarapa Building Society (bb+) and Christian Savings Limited (bb+). The financial year-end of Nelson Building Society and Wairarapa Building Society is 31 March. The financial year-end of First Credit Union and Unity Credit Union is 30 June. The financial year-end of Christian Savings Limited is 31 August.

Financials

Summary Financials

	31 Mar 23		31 Mar 22	31 Mar 21	31 Mar 20	31 Mar 19
	Year end	Year end	Year end	Year end	Year end	Year end
	(USDm)	(NZD 000)	(NZD 000)	(NZD 000)	(NZD 000)	(NZD 000)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	20	31,333.1	28,196.2	24,228.8	21,546.4	18,093.7
Net fees and commissions	1	1,215.8	1,072.6	1,054.4	1,328.1	941.1
Other operating income	0	530.1	442.1	419.3	425.2	357.0
Total operating income	21	33,079.0	29,710.9	25,702.5	23,299.7	19,391.8
Operating costs	10	16,570.5	13,521.9	12,147.0	11,266.8	10,712.6
Pre-impairment operating profit	10	16,508.5	16,189.0	13,555.5	12,032.9	8,679.2
Loan and other impairment charges	2	2,632.8	-1,336.1	1,353.7	3,422.9	782.5
Operating profit	9	13,875.7	17,525.1	12,201.8	8,610.0	7,896.7
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	2	3,931.4	4,953.9	3,275.6	2,439.6	2,247.3
Net income	6	9,944.3	12,571.2	8,926.2	6,170.4	5,649.4
Other comprehensive income	n.a.	n.a.	-314.2	n.a.	n.a.	n.a.
Fitch comprehensive income	6	9,944.3	12,257.0	8,926.2	6,170.4	5,649.4
Summary balance sheet						
Assets						
Gross loans	561	894,577.2	865,906.7	719,623.9	680,021.8	641,832.7
- Of which impaired	6	10,329.9	1,925.5	1,060.3	874.4	1,150.9
Loan loss allowances	4	6,364.8	3,807.9	5,166.4	4,209.6	1,330.9
Net loans	557	888,212.4	862,098.8	714,457.5	675,812.2	640,501.8
Interbank	144	230,087.8	215,572.2	223,371.5	181,335.9	182,265.0
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total earning assets	702	1,118,300.2	1,077,671.0	937,829.0	857,148.1	822,766.8
Cash and due from banks	2	2,429.6	2,173.3	2,464.8	2,464.8	2,142.5
Other assets	7	11,173.0	8,212.2	7,861.7	5,914.9	3,907.6
Total assets	710	1,131,902.8	1,088,056.5	948,155.5	865,527.8	828,816.9
Liabilities						
Customer deposits	638	1,016,569.9	981,296.1	851,227.7	789,081.1	767,946.2
Interbank and other short-term funding	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Other long-term funding	n.a.	n.a.	n.a.	n.a.	612.8	n.a.
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding and derivatives	638	1,016,569.9	981,296.1	851,227.7	789,693.9	767,946.2
Other liabilities	3	4,800.6	3,924.0	4,465.1	2,448.2	2,404.3
Preference shares and hybrid capital	31	50,121.0	50,268.5	50,638.5	39,048.5	29,068.5
Total equity	38	60,411.3	52,567.9	41,824.2	34,337.2	29,397.9
Total liabilities and equity	710	1,131,902.8	1,088,056.5	948,155.5	865,527.8	828,816.9
Exchange rate		USD1 = NZD1.5936	USD1 = NZD1.433692	USD1 = NZD1.43082	USD1 = NZD1.6675	USD1 = NZD1.473839

Source: Fitch Ratings, Fitch Solutions, Nelson Building Society

Key Ratios

	31 Mar 23	31 Mar 22	31 Mar 21	31 Mar 20	31 Mar 19
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	1.7	2.2	1.9	1.4	1.4
Net interest income/average earning assets	2.9	2.8	2.8	2.6	2.4
Non-interest expense/gross revenue	50.1	45.5	47.3	48.4	55.2
Net income/average equity	17.6	26.6	23.4	19.4	20.9
Asset quality					
Impaired loans ratio	1.2	0.2	0.2	0.1	0.2
Growth in gross loans	3.3	20.3	5.8	6.0	15.0
Loan loss allowances/impaired loans	61.6	197.8	487.3	481.4	115.6
Loan impairment charges/average gross loans	0.3	-0.2	0.2	0.5	0.1
Capitalisation					
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	7.1	6.2	6.1	5.4	5.2
Tangible common equity/tangible assets	5.1	4.7	4.2	3.8	3.5
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	6.8	-3.7	-10.3	-10.1	-0.6
Funding and liquidity					
Gross loans/customer deposits	88.0	88.2	84.5	86.2	83.6
Gross loans/customer deposits + covered bonds	n.a.	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	95.3	95.1	94.4	95.2	96.4
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Nelson Building Society

Support Assessment

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

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

The GSR of 'ns' (no support) assigned to NBS reflects our expectation that there is no reasonable assumption of support being forthcoming because of New Zealand's open bank resolution scheme (OBR). NBS is not part of the OBR, which allows for the imposition of losses on depositors and senior debt holders to recapitalise failed institutions. However, Fitch believes that the existence of the scheme, in conjunction with NBS's low systemic importance, makes sovereign support doubtful.

Environmental, Social and Governance Considerations

FitchRatings **Nelson Building Society**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Nelson Building Society has 5 ESG potential rating drivers
- Nelson Building Society 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.

			ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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 relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
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.