

Nelson Building Society

Key Rating Drivers

Moderate Franchise: Nelson Building Society's (NBS) ratings reflect its moderate franchise and small market share. It has limited competitive advantages despite its strong connection with the local community, and is generally a 'price taker' in its key operating segments. This is partly offset by the society's sound asset quality and stronger profitability than its peers, which will continue to underpin its ratings.

Capital Drives Stable Outlook: The revision of the Outlook to Stable follows a substantial improvement in NBS's capital buffer since the beginning of 2019 and an expectation that the buffer will continue to improve consistently over the next five years. The improved buffer is due mainly to recent amendments to the terms of NBS's perpetual preference shares (PPS), which grants full voting rights to the PPS holders. This allows NBS to issue PPS without limitation; previously these instruments were limited to 50% of the capital base.

Management to Strengthen Capital: NBS's capitalisation remains weaker than that of most domestic peers and management now aims to strengthen capitalisation to improve financial resilience. Fitch Ratings believes the new capital target can be achieved mainly through retained earnings, although it may issue PPS, if required. NBS's sound profitability should continue to support investor demand of the PPS. In addition, we expect loan growth to slow as management shifts its focus on capital strengthening.

Profitability Stronger Than Peers: Low impairment charges, stable margins and moderate loan growth should continue to support NBS's profitability in 2020. Similar to peers, the society faces headwinds, including increased regulatory costs, low interest rates and ongoing investments in digital capabilities. We believe these challenges will be manageable for NBS and it will be able to maintain the current margins and cost-to-income ratio.

Healthy Asset Quality: NBS's risk appetite was largely unchanged in 2019 and we believe the society will continue to focus on lower loan-to-value (LVR) ratio residential mortgages. Property-development loans increased in the last two years, but overall exposure to this sector is still low. Fitch expects NBS's asset-quality ratios to remain stronger than those of domestic peers in 2020. Loan impairments could increase slightly from the prevailing low levels, but low interest rates should continue to underpin its overall asset quality.

Fully Deposit Funded: NBS has a stable funding base and is fully funded by customer deposits, which we expect to continue. NBS's liquidity profile remains sound with liquidity ratios well above regulatory minimums. Lack of contingent liquidity sources is a key weakness in the liquidity profile of NBS and other non-bank deposit-taking institutions in New Zealand.

Rating Sensitivities

Capital Buffer and Growth: NBS's Issuer Default Ratings and Viability Rating would come under pressure if there is a material deterioration in the capital buffer. NBS's ratings are also sensitive to excessive loan growth, which would affect the society's ability to build up more capital according to its plan. Significant growth, possibly driven by weaker underwriting standards to improve earnings or franchise, could also lead to a weaker asset quality and deterioration in profitability.

Upgrade Unlikely: Positive rating action is improbable due to NBS's moderate franchise and small market share, which is unlikely to improve substantially over the short term without significantly weakening its underwriting standards and capitalisation.

Ratings

Foreign Currency

Long-Term IDR	BB+
Short-Term IDR	B

Local Currency

Long-Term IDR	BB+
Short-Term IDR	B

Viability Rating	bb+
Support Rating	5
Support Rating Floor	NF

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 \(October 2018\)](#)

[Short-Term Ratings Criteria \(May 2019\)](#)

Related Research

[Fitch Revises Outlook on Nelson Building Society to Stable; Affirms at 'BB+' \(December 2019\)](#)

[Nelson Building Society – Ratings Navigator \(January 2020\)](#)

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Environmental, Social and Governance Considerations

FitchRatings Nelson Building Society

Credit-Relevant ESG Derivation

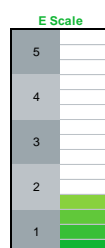
Nelson Building Society has 5 ESG potential rating drivers

- 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.

			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



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 left-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.

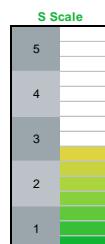
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general 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 and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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

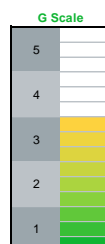
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
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



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



CREDIT-RELEVANT ESG SCALE

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg

Income Statement

	31 Mar 2019		31 Mar 2018		31 Mar 2017		31 Mar 2016		As % of Risk Weighted Assets
	Year End	Year End	As % of	Year End	As % of	Year End	As % of	Year End	
	USDm	NZD'000	Risk Weighted Assets	NZD'000	Risk Weighted Assets	NZD'000	Risk Weighted Assets	NZD'000	Risk Weighted Assets
	Audited - Unqualified	Audited - Unqualified		Audited - Unqualified		Audited - Unqualified		Audited - Report Not Seen	
1. Gross Interest and Dividend Income	30	43,897.7	7.9	38,430.4	8.0	33,033.8	7.5	31,156.9	8.8
2. Total Interest Expense	16	23,102.8	4.2	21,108.5	4.4	18,369.1	4.2	18,944.8	5.3
3. Net Interest Income	14	20,794.9	3.8	17,321.9	3.6	14,664.7	3.3	12,212.1	3.4
4. Net Fees and Commissions	-1	-1,760.1	-0.3	-1,288.7	-0.3	-502.4	-0.1	172.2	0.0
5. Trading and Investment Income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Other Non-Interest Operating Income	0	357.0	0.1	359.6	0.1	321.9	0.1	316.9	0.1
7. Total Non-Interest Operating Income	-1	-1,403.1	-0.3	-929.1	-0.2	-180.5	0.0	489.1	0.1
8. Total Operating Income	13	19,391.8	3.5	16,392.8	3.4	14,484.2	3.3	12,701.2	3.6
9. Personnel Expenses	3	4,416.8	0.8	3,990.2	0.8	3,786.3	0.9	3,393.6	1.0
10. Other Operating Expenses	4	6,295.8	1.1	5,985.0	1.2	5,394.3	1.2	5,179.6	1.5
11. Total Non-Interest Expenses	7	10,712.6	1.9	9,975.2	2.1	9,180.6	2.1	8,573.2	2.4
12. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
13. Pre-Impairment Operating Profit	6	8,679.2	1.6	6,417.6	1.3	5,303.6	1.2	4,128.0	1.2
14. Loan Impairment Charge	1	782.5	0.1	878.6	0.2	269.0	0.1	287.1	0.1
15. Securities and Other Credit Impairment Charges	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
16. Operating Profit	5	7,896.7	1.4	5,539.0	1.1	5,034.6	1.1	3,840.9	1.1
17. Non-operating/ non-recurring income/expense	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
18. Pre-tax Profit	5	7,896.7	1.4	5,539.0	1.1	5,034.6	1.1	3,840.9	1.1
19. Tax expense	2	2,247.3	0.4	1,566.4	0.3	1,425.0	0.3	1,087.5	0.3
20. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
21. Net Income	4	5,649.4	1.0	3,972.6	0.8	3,609.6	0.8	2,753.4	0.8
22. Other Comprehensive Income	n.a.	n.a.	n.a.	146.5	0.0	101.2	0.0	125.8	0.0
23. Total Comprehensive Income	4	5,649.4	1.0	4,119.1	0.9	3,710.8	0.8	2,879.2	0.8
Exchange rate		USD1 = NZD1.473839		USD1 = NZD1.38831		USD1 = NZD1.4304		USD1 = NZD1.4466	

Source: Fitch Ratings, Fitch Solutions

Balance Sheet

	31 Mar 2019		31 Mar 2018		31 Mar 2017		31 Mar 2016		
	Year End	Year End	As % of	Year End	As % of	Year End	As % of	Year End	As % of
	USDm	NZD'000	Assets	NZD'000	Assets	NZD'000	Assets	NZD'000	Assets
Assets									
A. Loans									
1. Gross Loans	435	641,832.7	77.4	558,355.6	77.2	489,511.6	76.7	403,498.1	72.2
2. Less: Loan Loss Allowances	1	1,330.9	0.2	1,331.2	0.2	711.6	0.1	910.0	0.2
3. Net Loans	435	640,501.8	77.3	557,024.4	77.0	488,800.0	76.6	402,588.1	72.1
4. Memo: Impaired Loans included in Gross Loans above	1	1,150.9	0.1	1,589.8	0.2	0.0	0.0	150.0	0.0
5. Memo: Specific Loan Loss Allowances	0	312.9	0.0	384.0	0.1	n.a.	n.a.	n.a.	n.a.
6. Memo: Gross Retail Loans	50	74,379.5	9.0	63,191.9	8.7	46,796.3	7.3	21,708.6	3.9
B. Other Earning Assets									
1. Loans and Advances to Banks	124	182,265.0	22.0	159,659.1	22.1	143,409.8	22.5	148,943.9	26.7
2. Reverse Repos and Securities Borrowing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Securities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Other Earning Assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Total Earning Assets	558	822,766.8	99.3	716,683.5	99.1	632,209.8	99.0	551,532.0	98.7
C. Non-Earning Assets									
1. Cash and Due From Banks	1	2,142.5	0.3	2,677.1	0.4	2,345.9	0.4	3,156.3	0.6
2. Foreclosed Assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Goodwill and Other Intangibles	0	312.6	0.0	341.5	0.0	701.8	0.1	297.5	0.1
4. Other Assets	2	3,595.0	0.4	3,326.3	0.5	3,224.1	0.5	3,681.1	0.7
5. Total Assets	562	828,816.9	100.0	723,028.4	100.0	638,481.6	100.0	558,666.9	100.0
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Total Customer Deposits	521	767,946.2	92.7	671,721.5	92.9	594,998.7	93.2	520,545.4	93.2
2. Deposits from Banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Repos and Securities Lending	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Commercial Paper and Short-term Borrowings	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Total Long-Term Funding	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Trading Liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7. Total Funding	521	767,946.2	92.7	671,721.5	92.9	594,998.7	93.2	520,545.4	93.2
8. Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
9. Total Funding and Derivatives	521	767,946.2	92.7	671,721.5	92.9	594,998.7	93.2	520,545.4	93.2
E. Non-Interest Bearing Liabilities									
1. Other Liabilities	2	2,404.3	0.3	2,234.7	0.3	1,652.5	0.3	1,798.4	0.3
2. Total Liabilities	523	770,350.5	92.9	673,956.2	93.2	596,651.2	93.4	522,343.8	93.5
F. Hybrid Capital									
1. Pref. Shares and Hybrid Capital	20	29,068.5	3.5	24,278.5	3.4	20,280.5	3.2	17,732.5	3.2
G. Equity									
1. Total Equity	20	29,397.9	3.5	24,793.7	3.4	21,549.9	3.4	18,590.6	3.3
2. Total Liabilities and Equity	562	828,816.9	100.0	723,028.4	100.0	638,481.6	100.0	558,666.9	100.0
3. Memo: Published Equity incl. Pref. Shares and Hybrid Capital accounted for as Equity	40	58,466.4	7.1	49,072.2	6.8	41,830.4	6.6	36,323.1	6.5
4. Memo: Fitch Core Capital	20	29,049.2	3.5	24,408.7	3.4	20,848.1	3.3	18,293.1	3.3
Exchange rate		USD1 = NZD1.473839		USD1 = NZD1.38831		USD1 = NZD1.4304		USD1 = NZD1.4466	

Source: Fitch Ratings, Fitch Solutions

Summary Analytics

	31 Mar 2019 Year End	31 Mar 2018 Year End	31 Mar 2017 Year End	31 Mar 2016 Year End
A. Interest Ratios				
1. Interest Income/ Average Earning Assets	5.7	6.0	6.1	6.9
2. Interest Expense/ Average Interest-bearing Liabilities	3.2	3.3	3.3	4.0
3. Net Interest Income/ Average Earning Assets	2.7	2.7	2.7	2.7
4. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	2.6	2.6	2.7	2.6
B. Other Operating Profitability Ratios				
1. Operating Profit/ Risk Weighted Assets	1.4	1.2	1.1	1.1
2. Non-Interest Expense/ Gross Revenues	55.2	60.9	63.4	67.5
3. Loans and securities impairment charges/ Pre-impairment Op. Profit	9.0	13.7	5.1	7.0
4. Operating Profit/ Average Total Assets	1.0	0.8	0.8	0.8
5. Operating Profit/ Average Equity	29.1	23.9	25.1	22.0
6. Non-Interest Income/ Gross Revenues	-7.2	-5.7	-1.3	3.9
7. Non-Interest Expense/ Average Total Assets	1.4	1.5	1.5	1.7
8. Pre-impairment Op. Profit/ Average Equity	32.0	27.7	26.4	23.6
9. Pre-impairment Op. Profit/ Average Total Assets	1.1	0.9	0.9	0.8
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	20.9	17.1	18.0	15.8
2. Net Income/ Average Total Assets	0.7	0.6	0.6	0.5
3. Net Income/ Risk Weighted Assets	1.0	0.8	0.8	0.8
D. Capitalization				
1. FCC/ FCC-Adjusted Risk Weighted Assets	5.2	5.1	4.7	5.2
2. Tangible Common Equity/ Tangible Assets	3.5	3.4	3.3	3.3
3. Basel Leverage Ratio	n.a.	n.a.	n.a.	n.a.
4. Common Equity Tier 1 Capital Ratio	n.a.	n.a.	n.a.	n.a.
5. Fully Loaded Common Equity Tier 1 Capital Ratio	n.a.	n.a.	n.a.	n.a.
6. Impaired Loans less Loan Loss Allowances/ Fitch Core Capital	-0.6	1.1	-3.4	-4.2
7. Risk Weighted Assets/ Total Assets	66.8	66.8	69.1	63.4
8. Growth of Risk-Weighted Assets	14.8	9.5	24.5	20.8
E. Loan Quality				
1. Impaired Loans/ Gross Loans	0.2	0.3	0	0.0
2. Growth of Gross Loans	15.0	14.1	21.3	11.7
3. Loan Loss Allowances/ Impaired Loans	115.6	83.7	n.a.	606.7
4. Loan Impairment Charges/ Average Gross Loans	0.1	0.2	0.1	0.1
5. Net Charge-offs/ Average Gross Loans	0.1	0.1	0.1	0.0
F. Funding and Liquidity				
1. Gross Loans/ Customer Deposits	83.6	83.1	82.3	77.5
2. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.
3. Customer Deposits/ Total Funding (excluding derivatives)	96.4	96.5	96.7	96.7
4. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.
5. Growth of Total Customer Deposits	14.3	12.9	14.3	21.8
6. Fitch QJD/ Risk-Weighted Assets	5.3	5.0	4.6	5.0
7. Net Loans/ Customer Deposits	83.4	82.9	82.2	77.3
Source: Fitch Ratings, Fitch Solutions				

Reference Data

	Year End USDm	31 Mar 2019 Year End NZD'000	31 Mar 2018 Year End NZD'000	31 Mar 2017 Year End NZD'000	31 Mar 2016 Year End NZD'000
A. Average Balance Sheet					
1. Average Gross Loans	407	600,094.2	523,933.6	446,504.9	382,363.0
2. Average Earning Assets	522	769,725.2	639,494.6	543,664.4	453,979.4
3. Average Total Assets	526	775,922.7	680,755.0	598,574.3	509,186.4
4. Average Interest-Bearing Liabilities	488	719,833.9	633,360.1	557,772.1	474,025.5
5. Average Equity	18	27,095.8	23,171.9	20,070.3	17,475.3
6. Average Customer Deposits	488	719,833.9	633,360.1	557,772.1	474,025.5
7. Average Risk Weighted Assets	352	518,360.0	369,923.5	317,417.5	256,650.5
B. Risk Weighted Assets					
1. Risk Weighted Assets	376	553,988.0	482,732.0	440,984.0	354,150.0
2. Fitch Core Capital Adjustments for Insurance and Securitisation Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.	n.a.
3. Fitch Core Capital Adjusted Risk Weighted Assets	376	553,988.0	482,732.0	440,984.0	354,150.0
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.	n.a.
5. Fitch Adjusted Risk Weighted Assets	376	553,988.0	482,732.0	440,984.0	354,150.0
C. Fitch Core Capital Reconciliation					
1. Total Equity as reported (including non-controlling interests)	20	29,397.9	24,793.7	21,549.9	18,590.6
2. Fair-value adjustments relating to own credit risk on debt issued	0	0.0	0.0	0.0	0.0
3. Non-loss-absorbing non-controlling interests	0	0.0	0.0	0.0	0.0
4. Goodwill	0	0.0	0.0	0.0	0.0
5. Other intangibles		312.6	341.5	701.8	297.5
6. Deferred tax assets deduction		36.1	43.5	0.0	0.0
7. Net asset value of insurance subsidiaries	0	0.0	0.0	0.0	0.0
8. First loss tranches of off-balance sheet securitizations	0	0.0	0.0	0.0	0.0
9. Fund for general banking risks if not already included and readily convertible into equity	0	0.0	0.0	0.0	0.0
10. Fitch Core Capital	20	29,049.2	24,408.7	20,848.1	18,293.1
D. Fitch Qualifying Junior Debt Buffer Reconciliation					
1. Subordinated Borrowing	n.a.	n.a.	n.a.	n.a.	n.a.
2. Pref. Shares and Hybrid Capital	20	29,068.5	24,278.5	20,280.5	17,732.5
3. Fitch Adjustments to Qualifying Junior Debt	0	0.0	0.0	0.0	0.0
4. Fitch Qualifying Junior Debt Buffer	20	29,068.5	24,278.5	20,280.5	17,732.5
Exchange Rate		USD1 = NZD1.473839	USD1 = NZD1.38831	USD1 = NZD1.4304	USD1 = NZD1.4466

Source: Fitch Ratings, Fitch Solutions

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