FitchRatings

Banks
Retail & Consumer Banks
New Zealand

Nelson Building Society

Key Rating Drivers

Profitability, Asset Quality Underpin Ratings: Nelson Building Society's (NBS) Issuer Default Ratings (IDRs) are driven by its Viability Rating (VR), which is one notch below the implied VR due to a negative adjustment to reflect core capitalisation that is weaker than that of peers. The VR is supported by NBS's leading profitability among New Zealand's non-bank deposit taker (NBDT) sector and sound asset quality. NBS is the country's largest NBDT, but its market share remains small relative to the overall banking system.

Instrument May Bolster Capital: Fitch Ratings expects a steady organic improvement in NBS's capital ratios over the medium term, supported by its profitability. We have revised the outlook on the 'bb' factor score to positive, from stable, as the development of a core capital instrument for mutual entities during 2023 may allow NBS to bolster its Fitch Core Capital ratio more quickly, addressing the weakness in its VR. This underpins our revision of the Outlook on the Long-Term IDRs to Positive from Stable.

Capitalisation is NBS's weakest financial profile factor but the score of 'bb' is above the 'b' category implied score, supported by a total capital ratio of 12.9% at end-2022, well above the 8.0% regulatory minimum. This is NBS's only regulatory capital requirement.

Stable Operating Environment: We expect the operating environment to be broadly stable for New Zealand NBDTs over the next two years, despite our forecast for a mild recession in 2023. This underpins the stable outlook on the operating environment score of 'a-' for NBDTs, which is below the 'aa' category score implied by Fitch's criteria to reflect the country's high household debt. Our assessment also incorporates the less stringent regulatory oversight of NBDTs relative to registered banks, resulting in a score one notch below that of New Zealand banks.

Simple, Consistent Business Model: NBS's business profile factor score of 'bb+' is above the 'b' category implied score, reflecting the society's simple and consistent business model, which offsets its modest franchise and limited pricing power. We expect NBS to continue to focus on the provision of lower risk residential mortgages and secured SME loans. NBS is the largest NBDT in New Zealand by total assets, but accounted for less than 0.2% of total banking and NBDT system assets at end-September 2022.

Low-Risk Mortgage Focus: NBS's risk profile score of 'bbb-' is one notch above the business profile score to reflect its focus on residential mortgages with lower loan/value ratios. Commercial and non-mortgage consumer exposures have increased as a proportion of total loans in recent years, but we believe the risks associated with these loans are adequately addressed through NBS's control and limit framework.

Modest Asset-Quality Weakening: Fitch expects some modest weakening of NBS's stage 3 loan ratio over the next two years, as the impact of sharply higher interest rates is felt by borrowers. However, low unemployment and NBS's risk profile should limit the deterioration. The factor score of 'bbb' is lower than the implied 'aa' category score due to the society's product and geographic concentration.

Profitability Above Peers: We expect NBS's profitability to remain stronger than that of its NBDT peers over the next two years and have upgraded the earnings factor score to 'bbb', from 'bbb-'. NBS's net interest margin may expand in the short-term because of rising rates, although competition, slower loan growth and higher expenses may offset the benefit to earnings.

Fully Deposit Funded: We expect NBS's funding profile to remain reasonably stable over the next two years. We have applied a negative adjustment on NBS's funding score of 'bbb-' from the 'a' category implied score to reflect the society's lack of access to the Reserve Bank of New Zealand'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	Positive
Long-Term Local-Currency IDR	Positive
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Revises Outlook on Nelson Building Society to Positive; Affirms at 'BB+' (February 2023)

APAC Developed Market Banks Outlook 2023 (November 2022)

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Rating Sensitivities

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

IDRs and VR

We may revise the Outlook to Stable should NBS's core capital improvement be slower than we expect, resulting in the society's Fitch Core Capital ratio continuing to significantly trail that of peers.

The ratings may be downgraded, although this appears unlikely, if there is an increase in the risk profile - aimed potentially at boosting market share and profitability - that leads to greater volatility in the financial profile through the cycle. It may be reflected in a combination of the following:

- stage 3 loans/gross loans increasing above 8% for a sustained period (FY19-FY22 average: 0.2%);
- operating profit/risk-weighted assets falling below 0.5% for a sustained period (FY19-FY22 average: 1.7%); and
- the regulatory total capital ratio declining below 9.5% without a credible plan to replenish regulatory capital buffers.

Alternatively, we may downgrade the VR and Long-Term IDRs if the loan/customer deposit ratio remains significantly above 100%, as it may indicate a weakening in the business model and risk profile.

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

IDRs and VR

The ratings may be upgraded if the society can increase its regulatory capital ratio to above 15% or its Fitch Core Capital ratio to around 14% and sustain it at this level. At the same time, core financial metrics for asset quality, earnings and funding should remain broadly stable. An improvement in risk controls to be more in line with that of New Zealand's registered banks would also be positive for the ratings.

An upgrade of the Short-Term IDR would require an upgrade of the Long-Term IDR to 'BBB-' or higher.

Significant Changes from Last Review

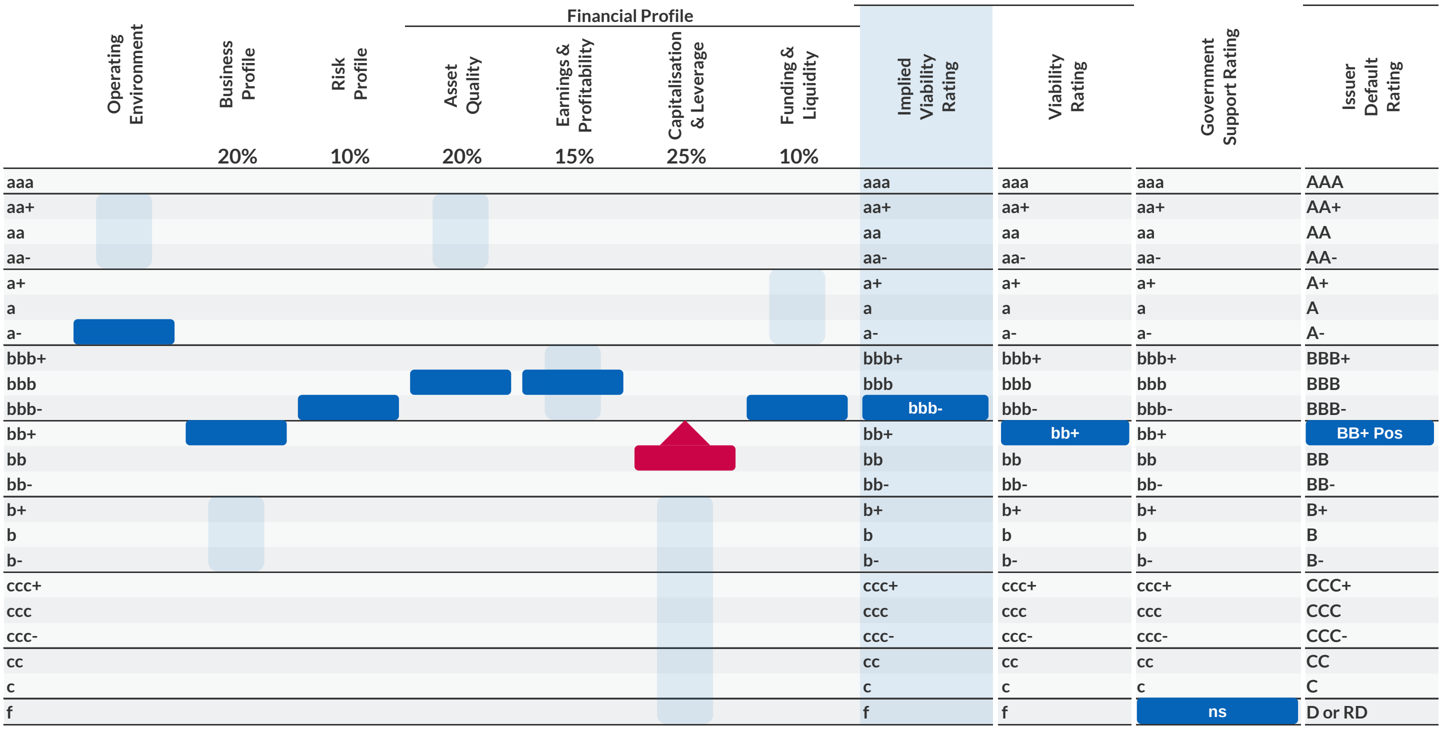
New Common Equity Instrument

The Reserve Bank of New Zealand is in the final stages of consulting on a new capital instrument for mutual entities such as NBS that will qualify as common equity Tier 1 capital. This would allow NBS to bolster its Fitch Core Capital position without relying solely on retained earnings, should it so desire, which would in turn alleviate a weakness of the current VR. The instrument is likely to be finalised during 2023.

Sharp Rise in Inflation and Interest Rates

New Zealand, like many countries globally, experienced a rapid increase in consumer prices during 2022. This resulted in the Reserve Bank of New Zealand increasing the overnight cash rate substantially, and we expect further increases in 2023. Rising interest rates are likely to place some pressure on New Zealand’s highly indebted households, particularly as many mortgage borrowers roll out of fixed-rate periods onto much higher interest rates over the next 12 months. However, New Zealand banks and NBDTs, including NBS, are unlikely to incur large losses in their mortgage portfolios because of low unemployment and solid underwriting.

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 'aa' category implied score because of the following adjustment reason: concentrations (negative)

The capitalisation and leverage score of 'bb' has been assigned above the 'b' category implied score because of the following adjustment reason: regulatory capital (positive).

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

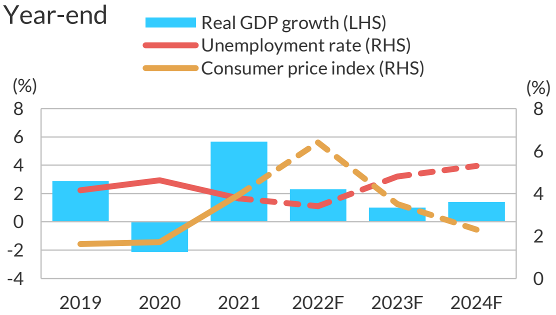
Operating Environment

We expect a further slowdown in GDP growth in New Zealand in 2023, including a mild recession mid-year, as interest rates increase to tackle high inflation but very low unemployment levels should provide an offset, resulting in a broadly stable operating environment. The unemployment rate remained near all-time lows at 3.4% in the December quarter of 2022. This should provide some support to asset quality as higher living costs, due to a sharp rise in inflation and higher interest rates, work their way through the economy.

House prices fell through 2022 after rapid increases during 2020 and 2021 and we expect further falls in 2023. The Reserve Bank of New Zealand's macroprudential limits should limit losses for banks should the downturn accelerate and unemployment increase. Most NBDTs have remained reasonably conservative in their underwriting and largely adhered to these guidelines even though they were not subject to the rules. Nevertheless, New Zealand has high household leverage relative to that of many other countries. Household debt/disposable income was close to a record high at 173% at end-June 2022.

New Zealand Economy

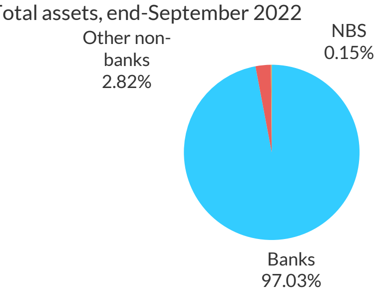
Year-end



Source: Fitch Ratings, Fitch Solutions

Market Share

Total assets, end-September 2022



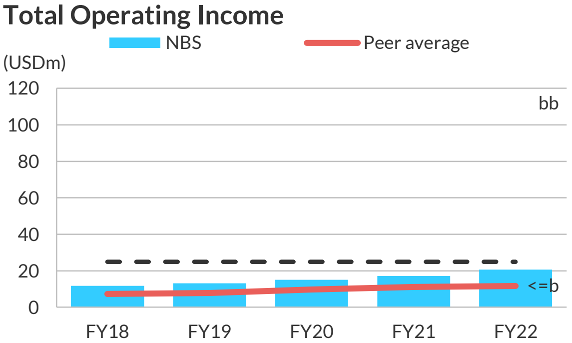
Source: Fitch Ratings, RBNZ, NBS

Business Profile

NBS was established in 1862 in Nelson, New Zealand, to provide housing and personal finance to members of the local communities in the Nelson and Tasman regions at the top of the south island. Its lending market share (less than 0.2%) is insignificant in the national context. The majority of NBS's lending is provided to the consumer segment, with residential mortgages making up around 60% of the net loan book, although this proportion has fallen in recent years due to growth in lending to small businesses. We expect NBS to maintain the current loan mix in the more subdued economic environment.

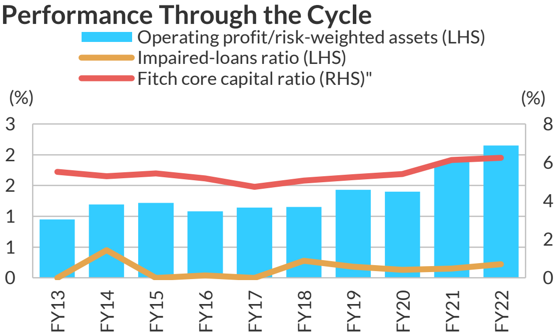
NBS's management depth and experience are adequate for its size. As a mutual building society, NBS's focus on absolute returns is less intense than publicly listed institutions. The society has no specific public quantitative targets, reflecting its key priority to serve its members and community. Nonetheless, profitability has been an important consideration as it enables the society to accumulate capital to continue to support balance-sheet growth.

Total Operating Income



Source: Fitch Ratings, Fitch Solutions

Performance Through the Cycle



Source: Fitch Ratings, NBS

Risk Profile

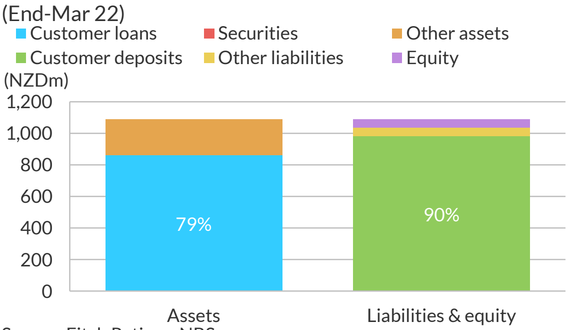
NBS's underwriting standards and serviceability assessment are generally in line with industry practice. All loans are assessed on an amortising basis using an interest rate that is higher than the current advertised rate. Residential mortgages remain the largest segment, accounting for about 60% of gross loans at end-March 2022. The society's commercial exposures consist mainly of property investment and agriculture lending in its home market.

NBS's risk-control and management tools are reasonable for its size. Its operational risk-management approach – including cyber security – appears adequate, and there were no major incidents during 2022.

NBS has no trading activities or foreign-exchange exposure. The society's market risk arises primarily from its fixed-rate lending and borrowing. Loans are managed to relatively short fixed-rate periods, which limits the interest-rate mismatch.

Balance Sheet

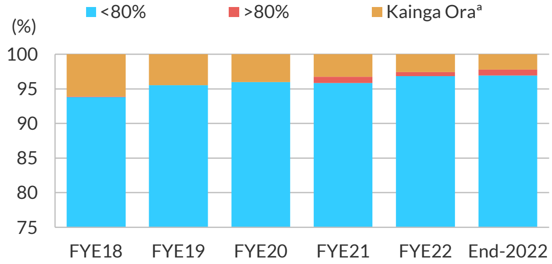
(End-Mar 22)



Source: Fitch Ratings, NBS

Mortgage by Loan-to-Value Ratio

On and off balance sheet



[a] Government guaranteed
Source: Fitch Ratings, NBS

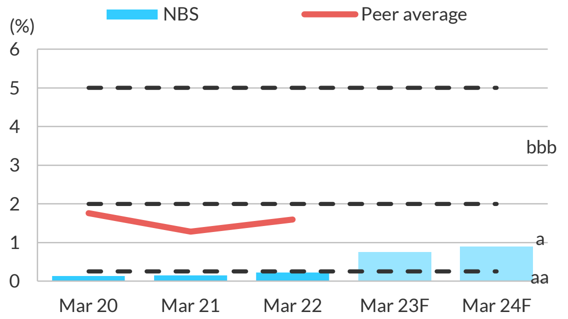
Financial Profile

Asset Quality

NBS's asset quality is likely to weaken as the impact of higher interest rates manifests through 2023 but we expect the stage 3 loan/gross loan ratio to peak below 1%. This reflects the risk profile of NBS's loan portfolio, particularly the mortgage book, as well as our expectation for only a modest rise in unemployment. NBS's loan-loss provision coverage ratio also remains sound (198% at FYE22), although we expect it to decline over the next two years as stage 3 loans increase.

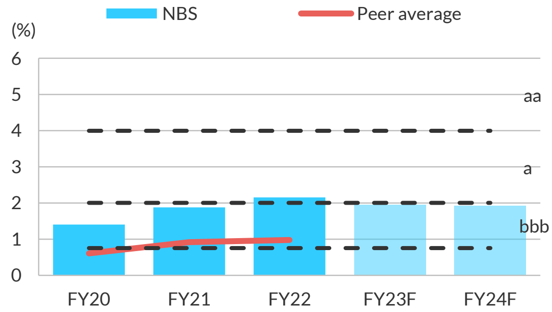
NBS's limited franchise and regional focus leaves its asset quality more susceptible to losses should there be a regional downturn. The concentration risk is reflected in NBS's assigned factor score of 'bbb', which is lower than the implied 'aa' category score.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

We expect NBS's profitability to remain the strongest amongst the NBDTs over the next two years, supported by its larger scale. Our forecast is for the operating profit/risk-weighted asset ratio to deteriorate modestly through to FY24 from the 2.2% reported in FY22 as higher operating expenses and an increase in impairment charges offset the benefit of an improved net interest margin. However, this would still result in a four-year average toward the top end of the range for an implied score in the 'bbb' category, which underpins the upgrade in the earnings factor score to 'bbb' from 'bbb-'. The score is consistent with the implied 'bbb' category score.

Rising interest rates should result in an improved net interest margin in FY23, before competition for both loans and deposits leads to a modest decline in FY24. Loan growth should slow, in line with our expectations for the system, while operating expenses will continue to rise, in part reflecting the inflationary environment. Nevertheless, we expect NBS's cost/income ratio to remain broadly stable around 45%.

Capital and Leverage

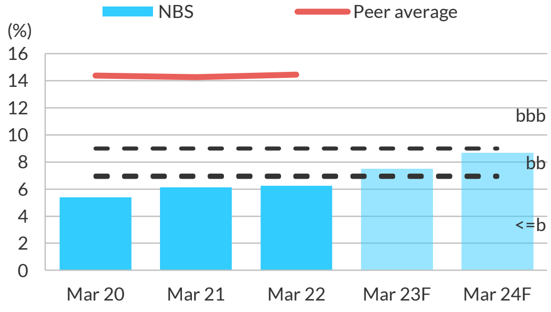
NBS's capitalisation remains a weakness for the rating and is the reason we adjust the VR down from the implied VR of 'bbb-'. Nevertheless, we expect NBS's profitability to support capital accumulation over the next two years, resulting in continued improvement in the building society's Fitch Core Capital ratio. We use the Fitch Core Capital ratio as the starting point to assess the capitalisation of New Zealand NBDTs like NBS, and adjust based on capital buffers available to the institution.

The Fitch Core Capital ratio was 6.2% at FYE22, which implies a capitalisation score in the 'b' category, but the assigned 'bb' score reflects the total capital ratio of 12.9% at end-2022, well above the regulatory minimum of 8%. The total capital ratio is the only regulatory capital ratio that NBDTs like NBS are subject to.

NBS supplements its core capital, which, as a mutual society, consists almost entirely of retained earnings, with the issuance of perpetual preference shares. These instruments are non-redeemable and non-cumulative capital instruments that can make up 100% of NBS's regulatory capital base; they made up 45% of total capital at end-2022.

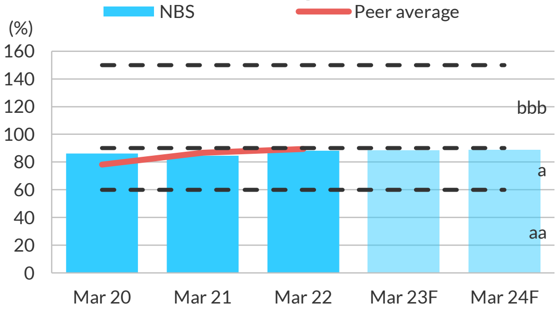
The new instrument under the central bank's consultation that can be issued by mutual banks and NBDTs and qualify as common equity Tier 1 for banks will also qualify as Fitch Core Capital for NBDTs. Once finalised, this could provide another option for NBS to bolster its Fitch Core Capital ratio. Access to the new instrument, likely to be available to mutual banks and NBDTs during 2023, underpins the positive factor outlook on the capitalisation score as it may allow NBS to build its Fitch Core Capital ratio towards peer levels more quickly than through retaining earnings alone.

Fitch Core Capital Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

We expect NBS's deposit growth to largely match loan growth over 2023, resulting in a stable loan/customer deposit ratio. The core metric implies a funding and liquidity factor score in the 'a' category but we have applied a negative adjustment to NBS's funding score of 'bbb-' to reflect lack of access to the central bank's lender-of-last-resort liquidity facilities.

The society is funded entirely by member deposits, which we believe will continue. There is a moderate level of individual concentration in NBS's deposit base, 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.

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

Financials

Financial Statements

	31 Mar 22		31 Mar 21	31 Mar 20	31 Mar 19	31 Mar 18
	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	28,196.2	24,228.8	21,546.4	18,093.7	15,167.2
Net fees and commissions	1	1,072.6	1,054.4	1,328.1	941.1	866.0
Other operating income	0	442.1	419.3	425.2	357.0	359.6
Total operating income	21	29,710.9	25,702.5	23,299.7	19,391.8	16,392.8
Operating costs	9	13,521.9	12,147.0	11,266.8	10,712.6	9,975.2
Pre-impairment operating profit	11	16,189.0	13,555.5	12,032.9	8,679.2	6,417.6
Loan and other impairment charges	-1	-1,336.1	1,353.7	3,422.9	782.5	878.6
Operating profit	12	17,525.1	12,201.8	8,610.0	7,896.7	5,539.0
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	3	4,953.9	3,275.6	2,439.6	2,247.3	1,566.4
Net income	9	12,571.2	8,926.2	6,170.4	5,649.4	3,972.6
Other comprehensive income	0	-314.2	n.a.	n.a.	n.a.	146.5
Fitch comprehensive income	9	12,257.0	8,926.2	6,170.4	5,649.4	4,119.1
Summary balance sheet						
Assets						
Gross loans	604	865,906.7	719,623.9	680,021.8	641,832.7	558,355.6
- Of which impaired	1	1,925.5	1,060.3	874.4	1,150.9	1,589.8
Loan loss allowances	3	3,807.9	5,166.4	4,209.6	1,330.9	1,331.2
Net loans	601	862,098.8	714,457.5	675,812.2	640,501.8	557,024.4
Interbank	150	215,572.2	223,371.5	181,335.9	182,265.0	159,659.1
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	752	1,077,671.0	937,829.0	857,148.1	822,766.8	716,683.5
Cash and due from banks	2	2,173.3	2,464.8	2,464.8	2,142.5	2,677.1
Other assets	6	8,212.2	7,861.7	5,914.9	3,907.6	3,667.8
Total assets	759	1,088,056.5	948,155.5	865,527.8	828,816.9	723,028.4
Liabilities						
Customer deposits	684	981,296.1	851,227.7	789,081.1	767,946.2	671,721.5
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.	612.8	n.a.	n.a.
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding and derivatives	684	981,296.1	851,227.7	789,693.9	767,946.2	671,721.5
Other liabilities	3	3,924.0	4,465.1	2,448.2	2,404.3	2,234.7
Preference shares and hybrid capital	35	50,268.5	50,638.5	39,048.5	29,068.5	24,278.5
Total equity	37	52,567.9	41,824.2	34,337.2	29,397.9	24,793.7
Total liabilities and equity	759	1,088,056.5	948,155.5	865,527.8	828,816.9	723,028.4
Exchange rate		USD1 = NZD1.433692	USD1 = NZD1.43082	USD1 = NZD1.6675	USD1 = NZD1.473839	USD1 = NZD1.38831

Source: Fitch Ratings, Fitch Solutions, NBS

Key Ratios

	31 Mar 22	31 Mar 21	31 Mar 20	31 Mar 19	31 Mar 18
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.2	1.9	1.4	1.4	1.2
Net interest income/average earning assets	2.8	2.8	2.6	2.4	2.4
Non-interest expense/gross revenue	45.5	47.3	48.4	55.2	60.9
Net income/average equity	26.6	15.3	19.4	20.9	17.1
Asset quality					
Impaired loans ratio	0.2	0.2	0.1	0.2	0.3
Growth in gross loans	20.3	5.8	6.0	15.0	14.1
Loan loss allowances/impaired loans	197.8	487.3	481.4	115.6	83.7
Loan impairment charges/average gross loans	-0.2	0.2	0.5	0.1	0.2
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	6.2	6.1	5.4	5.2	5.1
Tangible common equity/tangible assets	4.7	4.2	3.8	3.5	3.4
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	-3.7	-10.3	-10.1	-0.6	1.1
Funding and liquidity					
Gross loans/customer deposits	88.2	84.5	86.2	83.6	83.1
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	95.1	94.4	95.2	96.4	96.5
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, NBS

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) reflects our view that there is no reasonable assumption that support from the New Zealand sovereign would be forthcoming if required. We believe that the existence of an open bank resolution scheme lowers the propensity of the sovereign to support its banks. The scheme allows for the imposition of losses on depositors and senior debt holders to recapitalise a failed institution.

Environmental, Social and Governance Considerations

Overall ESG

5
4
3
2
1

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.

Environmental (E)

General Issues	Score	Impact	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

Social (S)

General Issues	Score	Impact	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	Score	Impact	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

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

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.