FitchRatings

# Nelson Building Society

## Key Rating Drivers

**Ratings Reflect Standalone Strength:** Nelson Building Society's (NBS) Long-Term Issuer Default Ratings (IDRs) are driven by its standalone credit profile, as indicated by its Viability Rating (VR). The rating takes into consideration the building society's consistent underwriting standards and asset quality, balanced against its modest domestic franchise.

**Reduced Household Sector Risk:** Fitch Ratings has revised the operating environment score for New Zealand non-bank deposit takers (NBDTs) to 'a'/stable, from 'a-'/stable to reflect sustained reduction in risks from the household sector over the past decade, due partly to a strengthened regulatory environment. However, household debt remains high relative to many other jurisdictions, so we maintain the score below the implied 'aa' category score to reflect this. We also incorporate the less stringent regulatory oversight of NBDTs relative to registered banks.

**Simple, Steady Business Model:** NBS's business profile factor score of 'bb+' is above the 'b' category implied score. This reflects the building society's simple and steady business model, which is focused on lower-risk residential mortgages and secured loans to small businesses. This is offset by its small franchise in New Zealand, with a market share of less than 0.2% of total banking and NBDT system assets as of end-September 2024.

**Conservative Risk Profile:** We view NBS's underwriting standards as conservative, evident from the exposure splits and weighting towards lower loan/value ratio (LVR) mortgages. NBS's risk profile is commensurate with its business model. Loans are largely restricted to residential mortgage lending, although the building society is also exposed to commercial lending.

**Manageable Asset-Quality Deterioration:** We expect NBS's stage 3 loan/gross loan ratio to reach 1% by the end of financial year on 31 March 2025 (FYE25). However, our forecast for unemployment to peak at around 5.5% and NBS's conservative underwriting standards should limit losses. 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.

**Limited Earnings Prospects:** We expect NBS's net interest margin (NIM) to contract as robust competition for loans and rate cuts put pressure on margins. Operating expenses are likely to remain high, as the building society continues to invest in technology and regulatory spend. We forecast the operating profit/risk-weighted asset (RWA) ratio to remain around 0.3% through to FYE26, which is well below historical earnings metrics. This led Fitch to lower the factor score to 'bb+', from 'bbb', and revise the outlook to negative.

**Capitalisation Lags Peers:** We expect NBS's Fitch Core Capital (FCC) ratio to improve only marginally, reaching 6.3% by FYE26. The core metric is likely to be maintained at a lower level and improve at a slower pace compared to our previous forecasts. This led Fitch to revise the factor outlook on the 'bb' score to stable from positive.

The capitalisation score of 'bb' is above the 'b' category implied score, supported by a total capital ratio of 12.1% as of end-September 2024, well above the 8% regulatory minimum. This is NBS's only regulatory capital requirement.

**Deposit-Focused Funding Base:** We expect NBS to remain largely funded by retail deposits over the next two years, with deposit growth to lag slightly behind loan growth. The funding and liquidity score of 'bbb-' is below the 'a' category implied score, reflecting that deposit costs are likely to be significantly higher for NBS relative to larger peers in a stressed environment due to its modest franchise.

**Banks**
Retail & Consumer Banks
New Zealand

## 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 (New Zealand)** | |
| 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 (March 2024)

## Related Research

Fitch Affirms Nelson Building Society at 'BB+'; Outlook Stable (December 2024)

Asia-Pacific Developed Market Banks Outlook 2025 (November 2024)

DM100 Banks Tracker - End-2023 (July 2024)

Challenges Increasing for Smaller Banks in Australia and New Zealand (June 2024)

## Analysts

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## Rating Sensitivities

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

*Long-Term IDRs and VR*

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, above-system NIM 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 put pressure on the business profile assessment. This may 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 (FY21-FY24 average: 0.6%);
- operating profit/RWA falling below 0.5% for a sustained period (FY21-FY24 average: 1.2%);
- the regulatory total capital ratio declining below 9.5% (end-1HFY25: 12.1%) without a credible plan to replenish regulatory capital buffers;
- the four-year average of the loan/customer deposit ratio sustained significantly above 100% (FY21-FY24 average of 85.5%).

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

*Long-Term IDRs and VR*

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, 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.

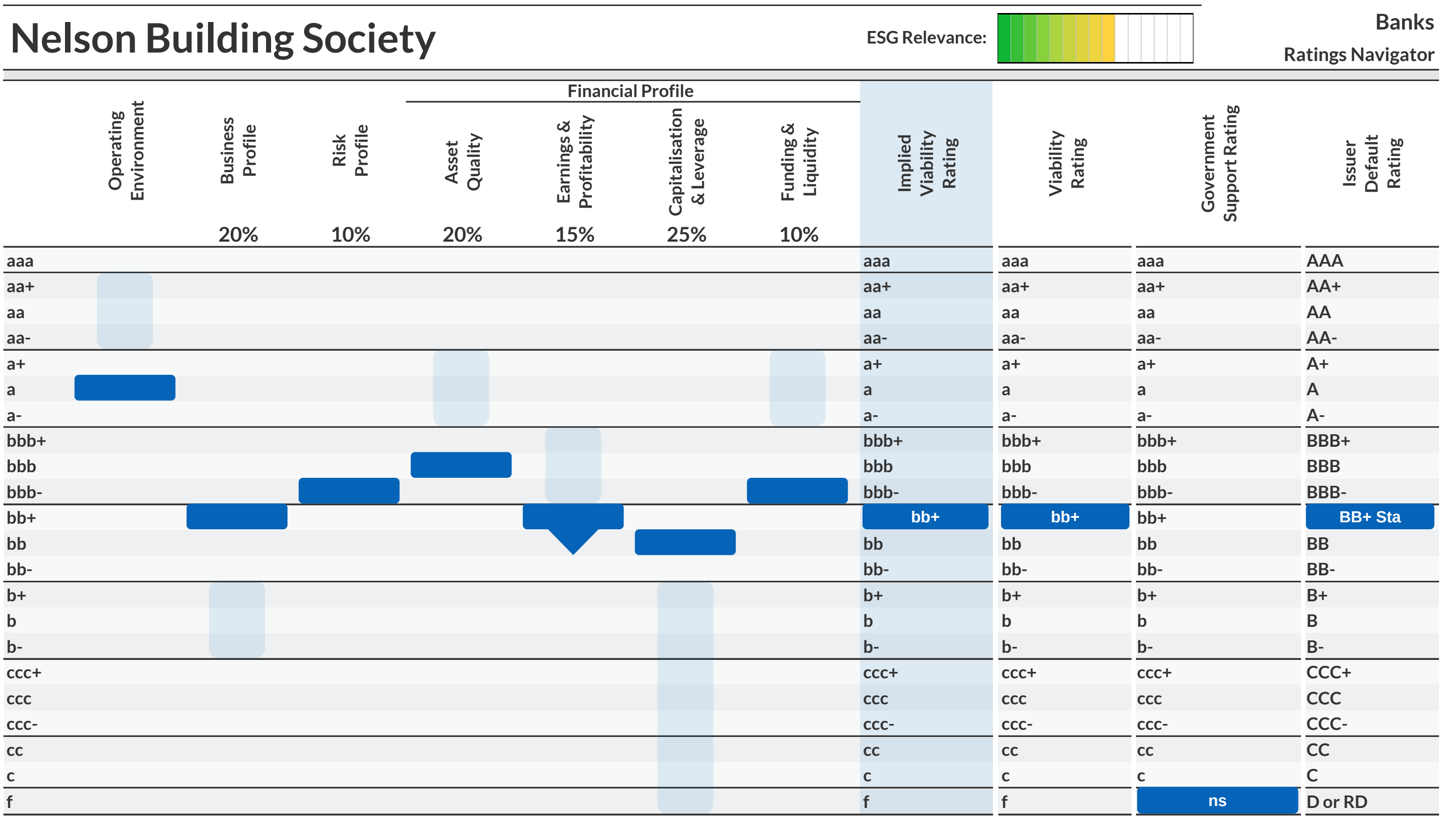
### Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

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 operating environment score of 'a' has been assigned below the 'aa' category implied score for 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 for the following adjustment reason: business model (positive).

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

The earnings and profitability score of 'bb+' has been assigned below the 'bbb' category implied score for the following adjustment reason: historical and future metrics (negative).

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

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

## Company Summary and Key Qualitative Factors

### Operating Environment

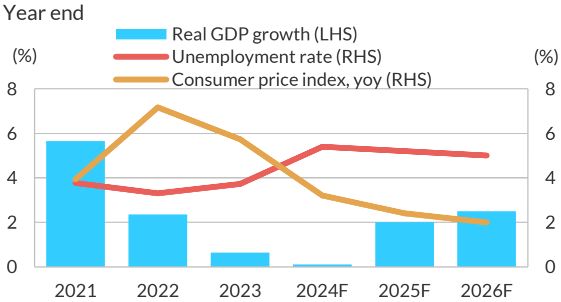
We expect New Zealand's real GDP to expand only marginally in 2024 as the full effect of the rapid interest-rate rises from 2021 to 2023 to tackle high inflation is felt by the economy, before growing by 2% in 2025. We expect unemployment to rise to around 5.4% as a result, from 4.6% at end-June 2024. Losses for banks and NBDTs should be manageable at this level, due in part to the strengthened macro-prudential rules that have been implemented over the last decade, as well as growing capital bases as banks and NBDTs prepare for the final implementation of the Reserve Bank of New Zealand's (RBNZ) new framework in mid-2028.

House prices eased during the September 2024 quarter after being relatively stable during the first half of the year. This follows substantial price declines through 2022 and 2023 driven by tighter monetary policy, though the declines came after a period of strong growth in 2020 and 2021. The RBNZ's LVR macroprudential limits mean loans with negative equity remain only a small portion of residential mortgages even after several years of price declines, while newly implemented debt/income limits should reduce the pace and scale of any future upswing in prices as interest rates are lowered. The RBNZ started easing rates in August 2024 from a peak of 5.5% and we expect the cash rate to reach 3% by end-2026.

New Zealand has high household leverage relative to many other countries, although it has remained broadly stable for the last 10 years. Household debt/disposable income was 167% at end-June 2024, down from a cyclical high of 175% at end-March 2022, and at similar levels to those reported in 2014. We expect the RBNZ's macro-prudential policies to result in household leverage remaining around these levels through the cycle.

#### New Zealand Economy

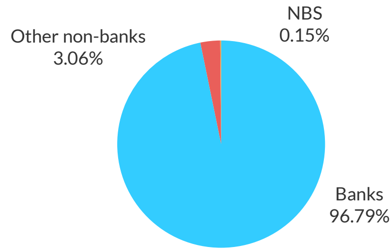
Year end




Source: Fitch Ratings, Fitch Solutions

#### Market Share

Total assets, end-September 2024




Source: Fitch Ratings, RBNZ, NBS disclosures

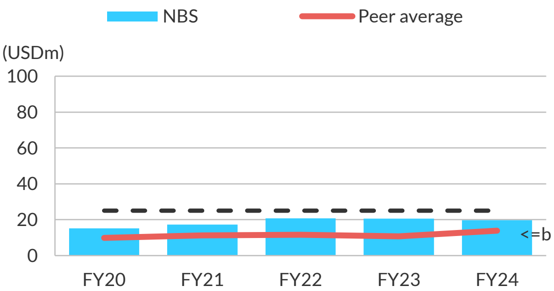
### Business Profile

NBS is the largest NBDT in New Zealand, although its share of New Zealand's total banking and NBDT system assets is modest. However, the society benefits from strong customer loyalty, particularly in the Nelson and Tasman regions, and maintains a competitive advantage due to its service offering.

The business model is simple with the core business consisting of the provision of loans funded by retail deposits, but it has a high reliance on net interest income.

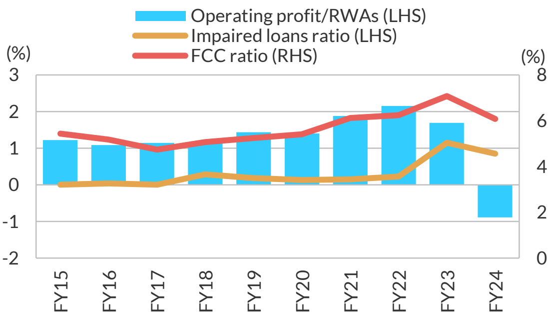
NBS's focus is on servicing its members and community. Execution of objectives has generally been good but the society's small, domestic franchise and lack of pricing power means that its ability to achieve its objectives could be more variable over the economic and interest rate cycle relative to larger peers.

#### Total Operating Income




Source: Fitch Ratings, Fitch Solutions, banks

#### Performance Through the Cycle




Source: Fitch Ratings, Fitch Solutions, NBS

## Risk Profile

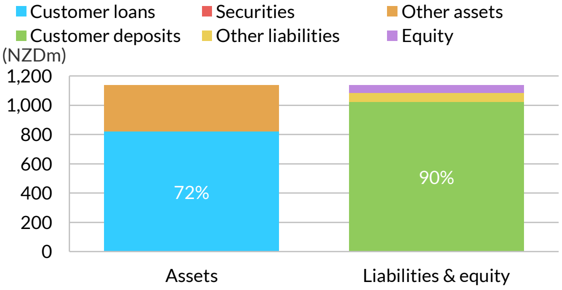
NBS's main risk is credit risk with loans accounting for 72% of its total assets at FYE24. The remaining assets were mainly cash held at New Zealand banks. We consider the building society's residential mortgage portfolio to be low risk given LVRs are largely below 80%.

The commercial loan book is well-secured, with exposure to agriculture and SME borrowers. We expect risk appetite for these exposures to remain unchanged, limited to the Nelson and Tasman regions, as management prefers not to lend outside these segments.

NBS maintains sound risk controls that are commensurate with the scale and complexity of its business model. Market risk is limited mainly to interest-rate risk in the banking book and appears to be well-managed for an entity of NBS's size and complexity. NBS's operational risk management also seems adequate, with cyber risk a key risk for the building society.

### Balance Sheet

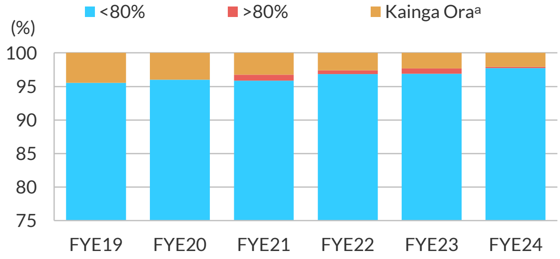
End-Mar 2024




Source: Fitch Ratings, Fitch Solutions, NBS

### Mortgage by LVR

On and off balance sheet




[a] Government guaranteed
Source: Fitch Ratings, NBS

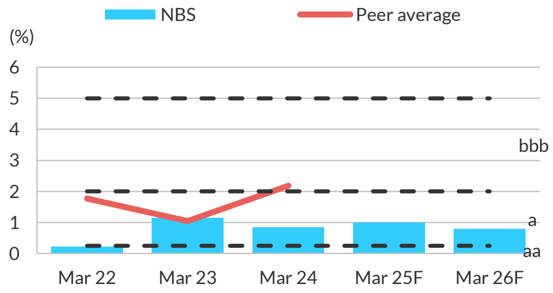
## Financial Profile

### Asset Quality

Rapid hikes in interest rates during 2021-2023 and an uptick in unemployment are likely to result in further modest weakening NBS's asset quality metrics. We expect the stage 3 loan/gross loans ratio to rise to 1% in FY25, from 0.9% in FYE24. Thereafter, asset quality should improve due to better economic conditions, particularly as interest rate cuts take effect.

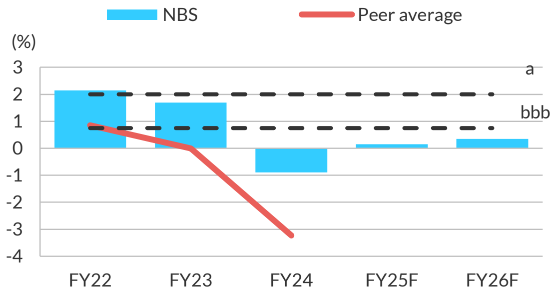
Provision coverage levels are likely to fall as the growth in stage 3 loans outpaces the growth in provisions. We expect NBS to utilise its collective provision as downside risks in the economy and the consumer portfolio decline to cover the rise in individually impaired loans. Coverage should remain adequate given high levels of collateral coverage in the loan portfolio.

**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 forecast the operating profit/RWA ratio to be 0.2% and 0.3% in FY25 and FY26, respectively. We expect costs to remain elevated due to ongoing investment spend over the next two years which, when combined with NIM attrition, underpins our revision of the factor score to 'bb+' with a negative outlook, from 'bbb'.

Competition for loans in a slower growth environment and the effect of rate cuts are likely to squeeze NBS's NIM. Inflated operating costs will also pressure earnings. We forecast the cost/income ratio to be around 90% over the next two years, which is well above historical levels and higher than that of larger peers.

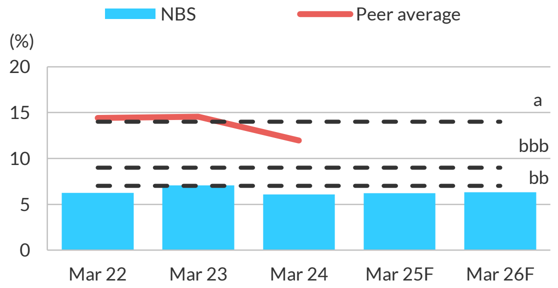
### Capitalisation and Leverage

We expect NBS's FCC ratio to increase to 6.3% through to FYE26. However, the only regulatory capital requirements for NBDTs like NBS is a minimum total capital ratio. The society reported a total capital ratio of 12.1% at end-September 2024, 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 50% of total capital at end-September 2024.

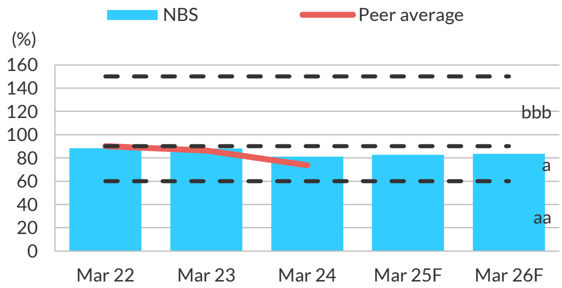
The RBNZ has finalised the requirements for a new mutual capital instrument that qualifies as common equity Tier 1 and provides another option for NBS to bolster its FCC ratio. Successful issuance of these instruments by NBS may allow it to build its FCC ratio towards peer levels more quickly than through retaining earnings alone. This would ultimately be positive for our assessment of the building society's capitalisation.

### FCC Ratio




Source: Fitch Ratings, Fitch Solutions, banks

### Gross Loans/Customer Deposits




Source: Fitch Ratings, Fitch Solutions, banks

## Funding and Liquidity

We expect NBS to remain mainly funded by retail deposits. Deposits are primarily sourced from the Nelson and Tasman regions, reflecting high geographic concentration. We forecast the loan/customer deposit ratio to weaken modestly to around 84% through to FYE26 as loan growth outpaces deposit growth.

Liquidity is generally well managed, with liquid assets primarily in the form of cash and bank deposits. NBS's liquidity requirements are guided by its trust deed, which outlines minimum ratios for certain metrics. The building society's reported ratios are well above these regulatory minimums.

## 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 M&A activity, we will not reflect these non-public future events in our 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.

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 24 | | 31 Mar 23 | 31 Mar 22 | 31 Mar 21 | 31 Mar 20 |
|---|---|---|---|---|---|---|
| | Year end (USDm) Audited - unqualified | Year end (NZD 000) Audited - unqualified | Year end NZD 000) Audited - unqualified | Year end (NZD 000) Audited - unqualified | Year end (NZD 000) Audited - unqualified | Year end (NZD 000) Audited - unqualified |
| **Summary income statement** | | | | | | |
| Net interest and dividend income | 18 | 29,946.1 | 31,333.1 | 28,196.2 | 24,228.8 | 21,546.4 |
| Net fees and commissions | 1 | 1,235.5 | 1,215.8 | 1,072.6 | 1,054.4 | 1,328.1 |
| Other operating income | 1 | 1,004.4 | 530.1 | 442.1 | 419.3 | 425.2 |
| Total operating income | 19 | 32,186.0 | 33,079.0 | 29,710.9 | 25,702.5 | 23,299.7 |
| Operating costs | 21 | 35,477.8 | 16,570.5 | 13,521.9 | 12,147.0 | 11,266.8 |
| Pre-impairment operating profit | -2 | -3,291.8 | 16,508.5 | 16,189.0 | 13,555.5 | 12,032.9 |
| Loan and other impairment charges | 2 | 3,814.0 | 2,632.8 | -1,336.1 | 1,353.7 | 3,422.9 |
| Operating profit | -4 | -7,105.8 | 13,875.7 | 17,525.1 | 12,201.8 | 8,610.0 |
| Other non-operating items (net) | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Tax | -1 | -1,334.5 | 3,931.4 | 4,953.9 | 3,275.6 | 2,439.6 |
| Net income | -3 | -5,771.3 | 9,944.3 | 12,571.2 | 8,926.2 | 6,170.4 |
| Other comprehensive income | 0 | -40.8 | n.a. | -314.2 | n.a. | n.a. |
| Fitch comprehensive income | -3 | -5,812.1 | 9,944.3 | 12,257.0 | 8,926.2 | 6,170.4 |
| | | | | | | |
| **Summary balance sheet** | | | | | | |
| **Assets** | | | | | | |
| Gross loans | 497 | 829,472.5 | 900,903.3 | 865,906.7 | 719,623.9 | 680,021.8 |
| - of which impaired | 4 | 7,041.6 | 10,329.9 | 1,925.5 | 1,060.3 | 874.4 |
| Loan loss allowances | 6 | 10,043.4 | 5,558.6 | 3,580.9 | 5,166.4 | 4,209.6 |
| Net loans | 491 | 819,429.1 | 895,344.7 | 862,325.8 | 714,457.5 | 675,812.2 |
| Interbank | 181 | 301,912.7 | 230,087.8 | 215,572.2 | 223,371.5 | 181,335.9 |
| 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 | 672 | 1,121,341.8 | 1,125,432.5 | 1,077,898.0 | 937,829.0 | 857,148.1 |
| Cash and due from banks | 1 | 2,106.4 | 2,429.6 | 2,173.3 | 2,464.8 | 2,464.8 |
| Other assets | 8 | 13,908.3 | 11,173.0 | 8,212.2 | 7,861.7 | 5,914.9 |
| Total assets | 681 | 1,137,356.5 | 1,139,035.1 | 1,088,283.5 | 948,155.5 | 865,527.8 |
| | | | | | | |
| **Liabilities** | | | | | | |
| Customer deposits | 613 | 1,022,510.2 | 1,022,895.9 | 981,296.1 | 851,227.7 | 789,081.1 |
| Interbank and other short-term funding | 0 | 0.0 | 0.0 | n.a. | n.a. | n.a. |
| Other long-term funding | 0 | 0.0 | 0.0 | n.a. | n.a. | n.a. |
| Trading liabilities and derivatives | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Total funding and derivatives | 613 | 1,022,510.2 | 1,022,895.9 | 981,296.1 | 851,227.7 | 789,081.1 |
| Other liabilities | 8 | 13,370.7 | 5,606.9 | 4,151.0 | 4,465.1 | 3,061.0 |
| Preference shares and hybrid capital | 30 | 49,621.0 | 50,121.0 | 50,268.5 | 50,638.5 | 39,048.5 |
| Total equity | 31 | 51,854.6 | 60,411.3 | 52,567.9 | 41,824.2 | 34,337.2 |
| Total liabilities and equity | 681 | 1,137,356.5 | 1,139,035.1 | 1,088,283.5 | 948,155.5 | 865,527.8 |
| Exchange rate | | USD1 = NZD1.66917 | USD1 = NZD1.5936 | USD1 = NZD1.433692 | USD1 = NZD1.43082 | USD1 = NZD1.6675 |

Source: Fitch Ratings, Fitch Solutions, Nelson Building Society

## Key Ratios

| | 31 Mar 24 | 31 Mar 23 | 31 Mar 22 | 31 Mar 21 | 31 Mar 20 |
|---|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | | |
| | | | | | |
| **Profitability** | | | | | |
| Operating profit/risk-weighted assets | -0.9 | 1.7 | 2.2 | 1.9 | 1.4 |
| Net interest income/average earning assets | 2.7 | 2.8 | 2.8 | 2.7 | 2.6 |
| Non-interest expense/gross revenue | 110.2 | 50.1 | 45.5 | 47.3 | 48.4 |
| Net income/average equity | -10.3 | 17.6 | 26.6 | 23.4 | 19.4 |
| | | | | | |
| **Asset quality** | | | | | |
| Impaired loans ratio | 0.9 | 1.2 | 0.2 | 0.2 | 0.1 |
| Growth in gross loans | -7.9 | 4.0 | 20.3 | 5.8 | 6.0 |
| Loan loss allowances/impaired loans | 142.6 | 53.8 | 186.0 | 487.3 | 481.4 |
| Loan impairment charges/average gross loans | 0.5 | 0.3 | -0.2 | 0.2 | 0.5 |
| | | | | | |
| **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 | 6.1 | 7.1 | 6.2 | 6.1 | 5.4 |
| Tangible common equity/tangible assets | 4.3 | 5.1 | 4.7 | 4.2 | 3.8 |
| 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 | -6.2 | 8.2 | -3.3 | -10.3 | -10.1 |
| | | | | | |
| **Funding and liquidity** | | | | | |
| Gross loans/customer deposits | 81.1 | 88.1 | 88.2 | 84.5 | 86.2 |
| 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 | 95.4 | 95.3 | 95.1 | 94.4 | 95.3 |
| 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 Government Support Rating 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, 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 | | | | ESG Relevance to Credit Rating |
|---|---|---|---|---|
| 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. | key driver | 0 | issues | 5 |
| Governance is minimally relevant to the rating and is not currently a driver. | 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 reflect 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#esgrelevance-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.