FitchRatings

Banks
Retail & Consumer Banks
New Zealand

Wairarapa Building Society

Key Rating Drivers

VR Underpins Ratings: Wairarapa Building Society's (WBS) Long-Term Issuer Default Ratings (IDRs) are driven by its Viability Rating (VR), which is in line with the implied VR. The VR is underpinned by good asset quality, reflecting its underwriting standards, and satisfactory capitalisation. A small national franchise and modest scale leave WBS susceptible to shocks and constrain potential for positive changes in the VR.

Economic Growth to Slow: Fitch Ratings expects slower economic growth in New Zealand in 2024. The higher cost of living is likely to put pressure on borrowers, although we expect the unemployment rate to remain resilient, which should support borrower repayment capacity. This underpins the stable outlook on our operating environment score of 'a-' for non-bank deposit takers (NBDTs), which is below the 'aa' category score implied by Fitch's criteria to reflect the high household debt in New Zealand.

We also incorporate the less stringent regulatory oversight of NBDTs relative to registered banks in the operating environment assessment, resulting in a score one notch below that of New Zealand banks. New Zealand is in the process of aligning regulation of all deposit takers under one framework, and we may consider aligning the NBDT operating environment score with that of banks once this is in place. However, finalisation of this framework is still a number of years away.

Simple Business Model: WBS has a modest franchise with a market share of less than 0.1% of combined banking and NBDT system assets at end-September 2023. This means it is generally a price-taker in its main operating segments and has limited competitive advantages. Fitch views the consistent and stable business model that is focused on residential mortgages and term deposits as a positive for the business profile, contributing to the factor score of 'bb-', which is above the implied 'b' category score.

Modest Risk Appetite: WBS has a focus on mortgages, both residential and commercial, with loan/value ratios (LVRs) that are generally lower than the market. This results in a high level of security over the loan portfolio and supports the risk profile score of 'bb+', two notches above the business profile score. Risk controls are less advanced than larger peers in New Zealand but appear adequate for the risks faced by the society.

Manageable Asset-Quality Pressure: We expect asset quality to come under pressure over 2024 as the full impact of rapid interest-rate increases and high inflation hits borrowers. However, WBS's focus on low LVR residential mortgages, and only a moderate weakening in unemployment, should limit the deterioration. This should result in a modest weakening in WBS's stage 3 loan ratio over 2024 (end-September 2023: 0.8%). The factor score of 'bb+' is below the implied 'a' category score due to WBS's product and geographic concentration.

Some Earnings Volatility: WBS's earnings and profitability score of 'bb+' is below the implied 'bbb' category score due to WBS having less diverse revenue streams than larger peers in New Zealand. The score also reflects some volatility in earnings metrics due to fair value changes in the society's investment property portfolio.

Sound Capital Ratios: We expect WBS to maintain capital ratios towards the top end of its peer group over the next two years. The Fitch Core Capital (FCC) and total capital ratios improved in the first half of the financial year ending March 2024 (1HFY24), with the latter at 15.8% and well above board and regulatory minimums. The assigned 'bb+' factor score is below the implied 'a' category score to reflect the small absolute size of the society's capital base (NZD28 million or USD17 million at end-1HFY24).

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 (September 2023)

Related Research

Fitch Affirms New Zealand's Wairarapa Building Society at 'BB+'; Outlook Stable (January 2024)

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

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

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Rating Sensitivities

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

IDRs and VR

WBS'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 system pace, 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 WBS's competitive standing and pressure the business profile assessment. This may, in turn, prompt WBS 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:

- the four-year average of stage 3 loans/gross loans increasing to above 3% for a sustained period (FY20-FY23 average of 1.1%);
- the four-year average of operating profit/risk-weighted assets falling to below 0.5% for a sustained period (FY20-FY23 average of 1.3%); or
- the FCC ratio declining to below 11.5% without a credible plan to replenish regulatory capital buffers (17.2% at end-1HFYE24); or
- the four-year average of the loan/customer deposit ratio sustained significantly above 100% (FY20-FY23 average of 94.4%).

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

IDRs and VR

An upgrade of WBS's Long-Term IDRs and VR appears unlikely as this would require a significant increase in its market share without materially weakening its underwriting standards and overall risk profile. This would also require sustained improvements in a number of WBS's financial metrics.

Other Debt and Issuer Ratings

Short-Term IDRs

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

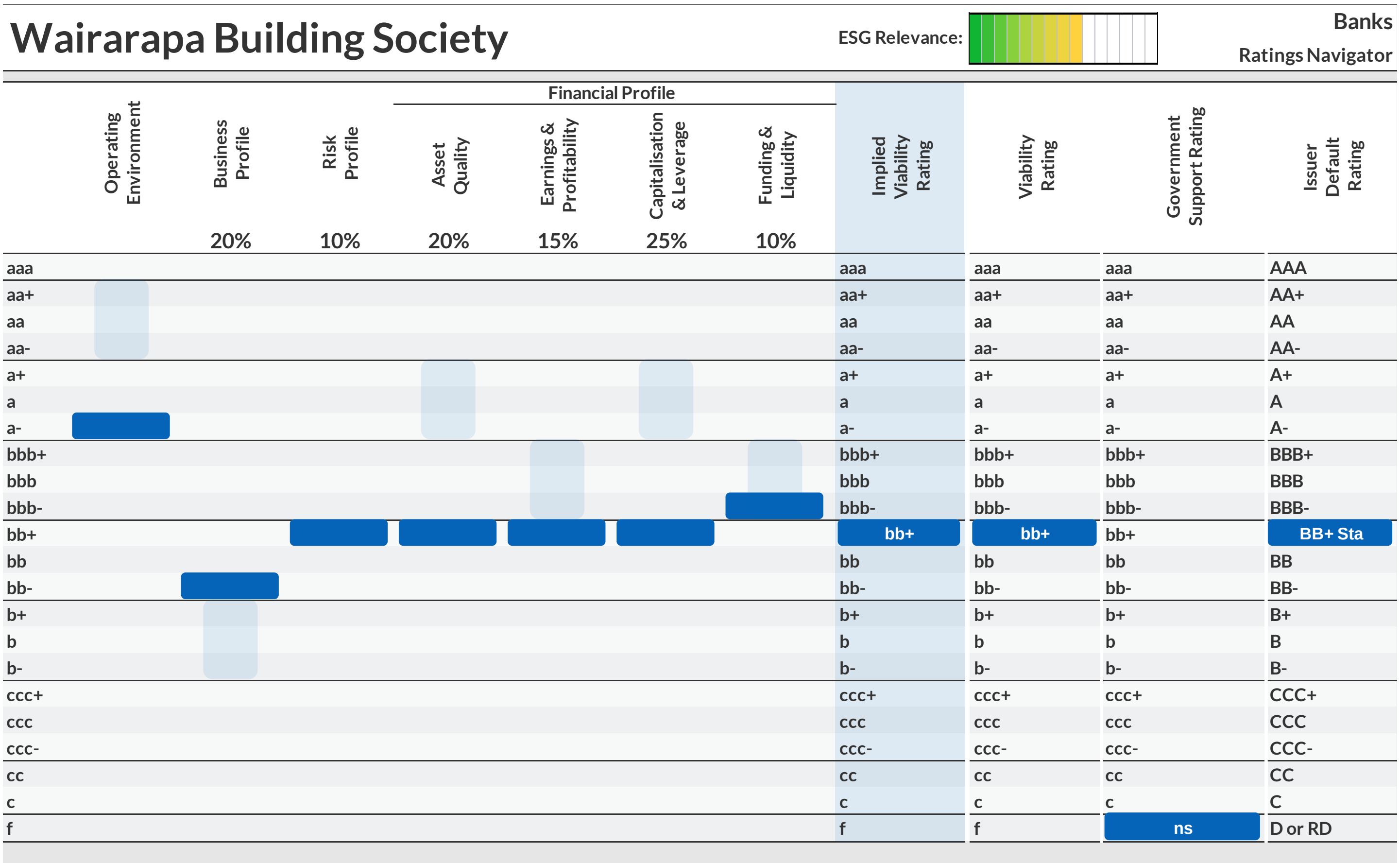
Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

The Short-Term IDRs would only be downgraded if the Long-Term IDRs were downgraded to 'CCC+' or below.

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

The Short-Term IDRs would be upgraded if the Long-Term IDRs were to be upgraded 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 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 'bb+' has been assigned below the 'a' category implied score because of the following adjustment reason: concentrations (negative).

The earnings and profitability score of 'bb+' has been assigned below the 'bbb' category implied score because of the following adjustment reason: revenue diversification (negative).

The capitalisation and leverage score of 'bb+' has been assigned below the 'a' category implied score because of the following adjustment reason: size of capital base (negative).

Company Summary and Key Qualitative Factors

Operating Environment

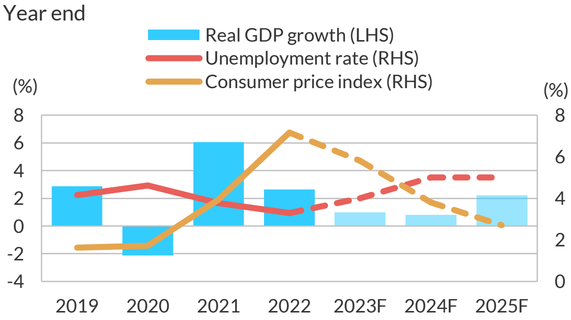
We expect New Zealand's GDP growth to slow further in 2024 as the full effect of rapid interest-rate increases from 2021 to 2023 to tackle high inflation is felt by the economy. We expect unemployment to rise to around 5% as a result. Losses for banks and NBDTs should be manageable at this level, which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

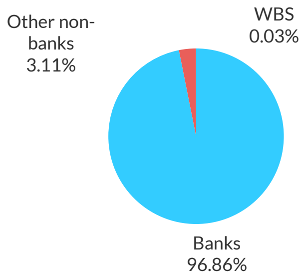
Year end



Source: Fitch Ratings, Fitch Solutions

Market Share

Total assets, end-September 2023



Source: Fitch Ratings, RBNZ, WBS

Business Profile

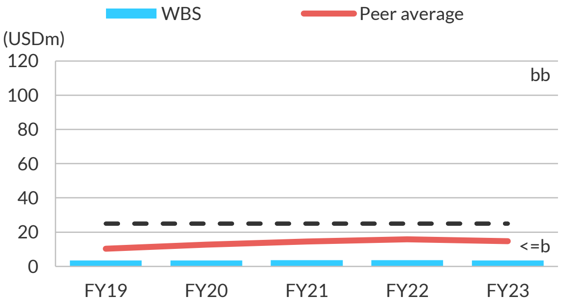
WBS is a small building society based in Masterton, New Zealand, where it has its only branch. The business model is simple and consistent, reflecting its focus on traditional banking, which offsets the modest franchise. The society does not offer transactional banking services, such as cheques or ATMs, which we regard as a limitation to its business model as it may leave the society susceptible to losing clients to competitors that offer a fuller array of banking products. This risk is partly mitigated by the society's long history in its home market.

The society is expanding in a measured way to regions adjacent to its home market and had about 15% of lending outside the Wairarapa region at end-September 2023. Lending is originated mainly through proprietary channels, which limits the ability of WBS to grow significantly outside its home market.

The society also owns two commercial properties in the Wairarapa region. These properties are not leveraged and add some diversity to earnings. They also contribute to earnings volatility through regular a revaluation process. For example, one of the properties benefited from a NZD1.9 million positive revaluation in 1HFY24 (equivalent to 59% of Fitch-calculated operating profit during the half) due to seismic strengthening works undertaken by WBS.

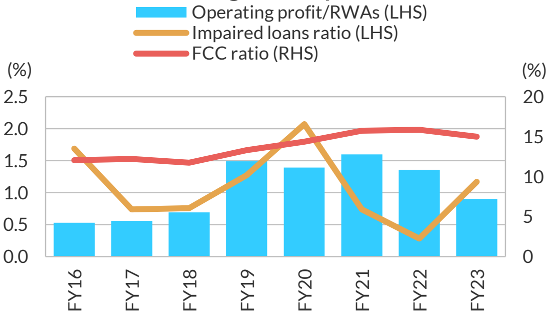
Fitch views management's depth and experience as adequate for the company's size and complexity. Strategic objectives should remain consistent and reflect its history as a building society through supporting members and providing high quality service.

Total Operating Income



Source: Fitch Ratings, Fitch Solutions, NBDTs

Performance Through the Cycle



Source: Fitch Ratings, Fitch Solutions, WBS

Risk Profile

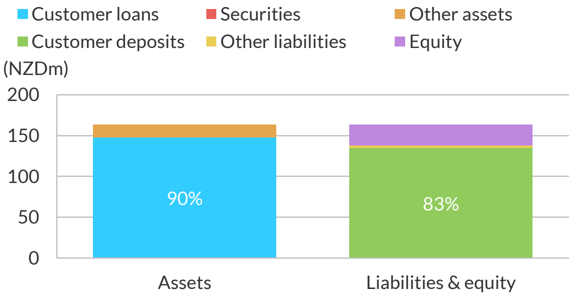
Fitch views WBS's risk profile as more conservative than that of some of its NBDT peers, particularly credit unions. Material change in the society's risk profile is unlikely in the near term. Underwriting standards are generally consistent with or better than industry practice. Serviceability for residential mortgages is assessed on an amortising basis, including a material buffer over the offered rate.

The risk-management framework and reporting tools are less sophisticated than that of larger peers, but appear appropriate given the nature of WBS's operations. The society's IT framework and systems are simple but appear appropriate for the business, and cyber risk management remains a key focus for management. WBS is required to operate within the terms of its trust deed, which has restrictions on liquidity, lending, capital and dealings with related parties.

Market risk primarily arises from interest-rate mismatch on assets and liabilities on the balance sheet. The society's hedging techniques are basic compared with those of larger domestic banks, reflecting the relative simplicity of operations. WBS employs a natural hedging strategy and matches the interest rate maturity profile of its financial assets and liabilities where possible. WBS's investment-property portfolio adds a degree of market risk, primarily through fair value adjustments. The property portfolio is revalued every 12 months based on rental income, lease expiry and the current market capitalisation rate.

Balance Sheet

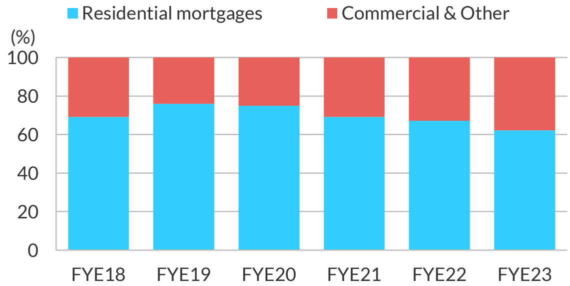
End-March 2023



Source: Fitch Ratings, Fitch Solutions, WBS

Loan Book Split

% of gross loans



Source: Fitch Ratings, WBS

Financial Profile

Asset Quality

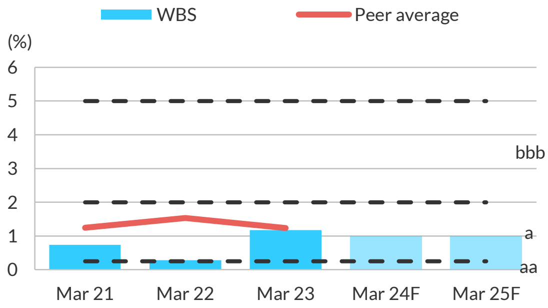
WBS's stage 3 loan ratio is likely to weaken in 2024 as the full effect of the rapid increase in interest rates, high inflation and a modest deterioration in unemployment are felt by some borrowers. However, WBS has solid buffers at the current score. Therefore, we do not expect downward pressure on the factor score over the next two years, which is reflected in the stable outlook.

The assigned factor score is below the category implied by the core metric due to WBS's higher single-name and geographical concentration than larger, more diversified peers. These leave it more susceptible to asset-quality shocks than those peers, such as an idiosyncratic economic shock in in the society's home market of Wairarapa.

In addition, investment properties comprised 4% of assets or 26% of Fitch core capital at end-1HFY24. These are fair valued each year, which can result in greater earnings volatility through the cycle than many peers as market conditions change.

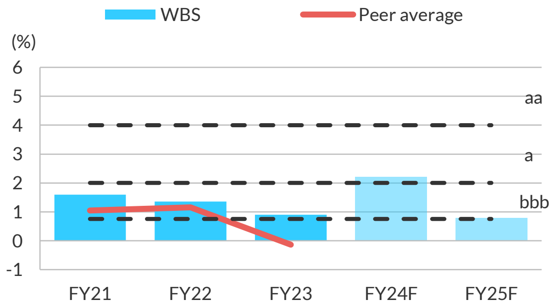
We expect provision coverage to be broadly stable through 2024. Provision coverage decreased in FY23 due to an increase in the stage 3 loan ratio. The coverage fell further in 1H24 despite a fall in the stage 3 loan ratio due to the release of some collective provisions.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, NBDTs

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, NBDTs

Earnings and Profitability

We expect profitability metrics to improve in FY24, driven by a NZD1.9 million fair value adjustment in the value of one investment property. This should result in WBS reporting an operating profit/risk-weighted asset (RWA) ratio above 2% for the year. We do not expect this fair value gain to recur so the operating profit/RWA ratio is likely to decline in FY25. A reduction in the net interest margin and ongoing expense growth are also likely to contribute to the fall in earnings.

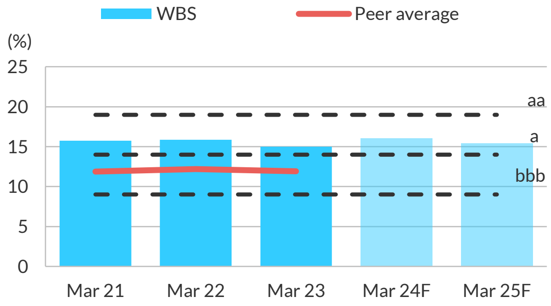
WBS's investment property portfolio is likely to continue contributing to some earnings volatility due to fair value adjustments. The society reassesses the value of its investment properties once a year, with fair value gains and losses reported in the profit and loss statement. This can sometimes be large relative to earnings from the banking operations and result in significant increases and decreases in the operating profit/RWA ratio from period to period.

Capital and Leverage

We expect the FCC and total regulatory capital ratios to moderately weaken over the next two years from the ratios reported at end-1HFY24 (17.2% and 15.8% respectively), driven by an increase in loan growth. However, the ratios should remain well above minimum requirements. The assigned score of 'bb+' is below the implied 'a' category score to reflect the small absolute size of the capital base, which leaves the society more susceptible to sharp shocks (e.g. an operational event like a cybersecurity breach or a significant regional economic downturn) than larger peers.

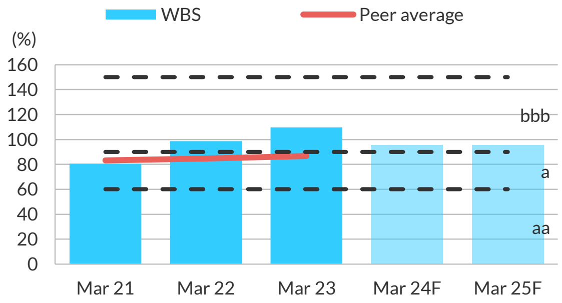
The regulatory total-capital ratio is the only regulatory capital metric required to be calculated by WBS, and the building society is subject to an 8% regulatory minimum. WBS maintains large buffers over this minimum, in part to reflect the risks associated with WBS's commercial property portfolio, which may erode capital if property prices were to decline significantly.

FCC Ratio



Source: Fitch Ratings, Fitch Solutions, NBDTs

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, NBDTs

Funding and Liquidity

We expect the loan/customer deposit ratio to deteriorate modestly in 2HFY24 from the 91% reported at end-1HFY24 due to a pick-up in loan growth. We then expect deposit growth to largely match loan growth over FY25 and FY26, leaving the loan/customer deposit ratio stable. The building society remains fully deposit funded.

WBS's liquidity requirements are guided by its trust deed, which outlines minimum ratios for certain metrics. Reported ratios are well above these minimums. The building society rebuilt on-balance sheet liquidity through strong growth in its bank deposit holdings during 1HFY24 to NZD38 million, or 25% of customer deposits, by the end of the period.

Additional Notes on Charts

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

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

Black dashed lines represent 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 Christian Savings Limited (VR: bb+), Unity Credit Union (b), First Credit Union (bb) and Nelson Building Society (bb+). The financial year end of WBS and Nelson Building Society is 31 March. The financial year end of Christian Savings Limited is 31 August. The financial year end of Unity Credit Union and First Credit Union is 30 June. Latest average uses FY23 data for WBS, Nelson Building Society, Christian Savings Limited, Unity Credit Union and First Credit Union.

Financials

	30 Sep 23		31 Mar 23	31 Mar 22	31 Mar 21	31 Mar 20
	1st half	1st half	12 months	12 months	12 months	12 months
	(USDth)	(NZDth)	(NZDth)	(NZDth)	(NZDth)	(NZDth)
	Reviewed – unqualified	Reviewed – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified	Audited – unqualified
Summary income statement						
Net interest and dividend income	1,610	2,698	5,756	4,658	3,808	3,490
Net fees and commissions	47	79	152	170	261	217
Other operating income	1,355	2,272	-251	480	1,205	1,670
Total operating income	3,012	5,049	5,657	5,308	5,274	5,377
Operating costs	1,210	2,029	4,041	3,332	3,059	2,962
Pre-impairment operating profit	1,802	3,020	1,616	1,976	2,215	2,415
Loan and other impairment charges	-157	-263	118	-94	-45	304
Operating profit	1,959	3,283	1,498	2,070	2,260	2,111
Other non-operating items (net)	—	—	—	—	—	20
Tax	144	241	724	595	455	111
Net income	1,815	3,042	774	1,475	1,805	2,020
Other comprehensive income	—	—	2	16	-621	16
Fitch comprehensive income	1,815	3,042	776	1,491	1,184	2,036
Summary balance sheet						
Assets						
Gross loans	83,059	139,223	148,333	124,979	108,046	127,164
– Of which impaired	663	1,111	1,742	356	803	2,627
Loan loss allowances	200	335	598	480	575	620
Net loans	82,859	138,888	147,735	124,499	107,471	126,544
Interbank	—	—	3,000	17,000	40,500	29,200
Derivatives	—	—	—	—	—	—
Other securities and earning assets	4,424	7,415	5,324	4,805	6,630	8,645
Total earning assets	87,283	146,303	156,059	146,304	154,601	164,389
Cash and due from banks	22,428	37,594	6,009	1,803	1,185	412
Other assets	897	1,504	1,373	4,083	2,714	2,984
Total assets	110,608	185,401	163,441	152,190	158,500	167,785
Liabilities						
Customer deposits	91,520	153,405	135,096	126,538	134,079	143,782
Interbank and other short-term funding	—	—	—	—	—	—
Other long-term funding	—	—	—	—	—	—
Trading liabilities and derivatives	—	—	—	—	—	34
Total funding and derivatives	91,520	153,405	135,096	126,538	134,079	143,816
Other liabilities	2,179	3,653	3,044	1,127	1,387	2,119
Preference shares and hybrid capital	—	—	—	—	—	0
Total equity	16,909	28,343	25,301	24,525	23,034	21,850
Total liabilities and equity	110,608	185,401	163,441	152,190	158,500	167,785
Exchange rate		USD1 = NZD1.6762	USD1 = NZD1.5936	USD1 = NZD1.433692	USD1 = NZD1.43082	USD1 = NZD1.6675

Source: Fitch Ratings, Fitch Solutions, Wairarapa Building Society

	30 Sep 23	31 Mar 23	31 Mar 22	31 Mar 21	31 Mar 20
Ratios (%; annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	4.0	0.9	1.4	1.6	1.4
Net interest income/average earning assets	3.6	3.8	3.1	2.4	2.2
Non-interest expense/gross revenue	40.2	71.4	62.8	58.0	55.1
Net income/average equity	22.6	3.1	6.2	8.0	9.8
Asset quality					
Impaired loans ratio	0.8	1.2	0.3	0.7	2.1
Growth in gross loans	-6.1	18.7	15.7	-15.0	0.4
Loan loss allowances/impaired loans	30.2	34.3	134.8	71.6	23.6
Loan impairment charges/average gross loans	-0.4	0.1	-0.1	0.0	0.2
Capitalisation					
Common equity Tier 1 ratio	—	—	—	—	—
Fully loaded common equity Tier 1 ratio	—	—	—	—	—
Fitch Core Capital ratio	17.2	15.0	15.9	15.7	14.4
Tangible common equity/tangible assets	15.2	15.4	16.0	14.3	13.0
Basel leverage ratio	—	—	—	—	—
Net impaired loans/common equity Tier 1	—	—	—	—	—
Net impaired loans/Fitch Core Capital	2.8	4.6	-0.5	1.0	9.2
Funding and liquidity					
Gross loans/customer deposits	90.8	109.8	98.8	80.6	88.4
Gross loans/customer deposits + covered bonds	—	—	—	—	—
Liquidity coverage ratio	—	—	—	—	—
Customer deposits/total non-equity funding	100.0	100.0	100.0	100.0	100.0
Net stable funding ratio	—	—	—	—	—

Source: Fitch Ratings, Fitch Solutions, Wairarapa 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 WBS reflects our expectation that there is no reasonable assumption of support being forthcoming because of New Zealand's open bank resolution scheme (OBR). WBS 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 WBS's low systemic importance, makes sovereign support doubtful.

Environmental, Social and Governance Considerations

FitchRatings **Wairarapa Building Society**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ESG Relevance to Credit Rating

Wairarapa Building Society has 5 ESG potential rating drivers

- Wairarapa 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.

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

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

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.

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.

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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.

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