FitchRatings

Auswide Bank Ltd

Key Rating Drivers

IDR Driven by VR: The Long-Term Issuer Default Rating (IDR) of Auswide Bank Ltd is driven by its Viability Rating (VR), which is in line with the implied VR under Fitch Ratings' Bank Rating Criteria. The IDR reflects a business model and risk profile that focuses on low-risk residential mortgages, resulting in relatively stable asset quality and earnings over a sustained period. These factors are offset by the bank's small franchise and market share.

Economic Growth to Slow: We expect the high inflation and rapid interest-rate hikes in 2022 and 2023 to slow economic growth and raise unemployment in Australia through 2024. However, the weakening should be manageable and not result in sharp asset-quality deterioration. We factor in high household leverage into our operating environment assessment to reflect households' susceptibility to sharp interest-rate hikes, resulting in a score at the lower end of the 'aa' category.

Concentrated but Stable Business Model: Auswide's national market share of below 0.5% for mortgages and household deposits remains a weakness for the VR. The small market position means it has limited competitive advantages and generally acts as a price taker. Auswide's size and earnings would imply a 'bb' category score for the business profile. However, we believe the bank's low-risk and stable business model, which focuses on traditional banking activities, offsets the weaker market position and supports the business profile score of 'bbb'.

Residential Mortgage Focus: Auswide's risk profile score is above the business profile score, reflecting the simple and low-risk nature of its operations and focus on residential mortgages. We consider its underwriting and mortgage portfolio to be relatively low risk, which offsets some of the weaknesses in its business model, namely its modest franchise.

Modest Weakening in Asset Quality: We expect the bank's impaired loan/gross loan ratio to modestly weaken over the next 12 months as the full impact of higher interest rates and a modest rise in unemployment are felt by borrowers. We expect this to be manageable and have kept the asset-quality score at 'a-' with a stable outlook, lower than the implied 'aa' category score to reflect geographic and product concentrations in the loan portfolio.

Moderation in Earnings: We expect Auswide's earnings core metric to contract in the financial year ending June 2024 (FY24) and remain under pressure in FY25 on sector challenges, such as intense competition, high investment expenses and rising funding costs.

The earnings and profitability factor score of 'bbb+' is below the implied 'a' category score, as we apply a downward adjustment to reflect low revenue diversification resulting from the heavy focus on home loans.

Adequate Capitalisation: We regard Auswide's capital buffers as adequate for its ratings and believe it will eventually manage down the common equity Tier 1 (CET1) ratio – 12.8% at end-1HFY24 – closer to management's operating targets over the next few years. The capitalisation and leverage score of 'bbb+' is lower than the implied 'a' category score, as we adjust down for Auswide's small absolute size.

Modest Wholesale Funding Reliance: The core metric, loans/customer deposits (1H24: 106%), is likely to remain broadly stable in 2024. We expect Auswide's loan growth to return to positive at FYE24 but remain under system levels. Retail deposits are likely to remain the core funding source, with wholesale sources providing some diversification. Management of wholesale funding appears to be sound. The 'bbb' funding and liquidity score is lower than the implied 'a' category score, as we adjust down for the bank's deposit structure and small deposit franchise.

Ratings

Foreign Currency	
Long-Term IDR	BBB+
Short-Term IDR	F2
Viability Rating	bbb+
Government Support Rating	ns
Sovereign Risk	
Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA
Outlooks	
Long-Term Foreign-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 Australia's Auswide Bank at 'BBB+'; Outlook Stable (June 2024)

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

Global Economic Outlook (June 2024)

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

Analysts

Jack Do
+61 2 8256 0355
jack.do@fitchratings.com

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

Rating Sensitivities

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

Long-Term IDR and VR

Auswide's Long-Term IDR and VR could be downgraded if the business profile weakens. This could be reflected in growth in deposits and loans that is persistently below the pace of the system, above-system net interest margin (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 also reduce Auswide's competitive standing and pressure the business profile assessment. This may prompt the group 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 four-year stage 3 loans/gross loans increasing to above 3% for a sustained period (FYE23: four-year average of 0.2%);
- The four-year operating profit/risk-weighted asset ratio (RWA) ratio declining below 0.75% for a sustained period (FYE23: four-year average of 1.8%); or
- the CET1 ratio falling below 10% (1HFY24: 12.8%) without a credible plan to increase it back above this level.

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

Long-Term IDR and VR

Positive rating action on Auswide's IDR and VR appears unlikely, as it would require a significant improvement in the financial profile and business profile without a substantial increase in the risk profile.

Other Debt and Issuer Ratings

Rating level	Rating	Outlook
Subordinated: Long Term	BBB-	n.a.

Source: Fitch Ratings

Short-Term IDR: The Short-Term IDR are the lower of the two options available at a Long-Term IDR of 'BBB+', as the funding and liquidity score of 'bbb' is not high enough to support the higher option.

Subordinated Debt: Auswide's subordinated Tier 2 debt is rated two notches below its anchor rating, the VR, which is consistent with the base case in Fitch's Bank Rating Criteria. The two notches below the anchor rating are for loss severity, with non-performance risk captured adequately by the VR. None of the reasons for alternative notching from the anchor rating, as described in the criteria, is present.

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

Short-Term IDR

A downgrade of the Short-Term IDR to 'F3' may occur if the Long-Term IDR were downgraded to 'BBB' or below.

Subordinated Debt

The ratings assigned to Auswide's subordinated Tier 2 bonds will be downgraded if its VR is downgraded.

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

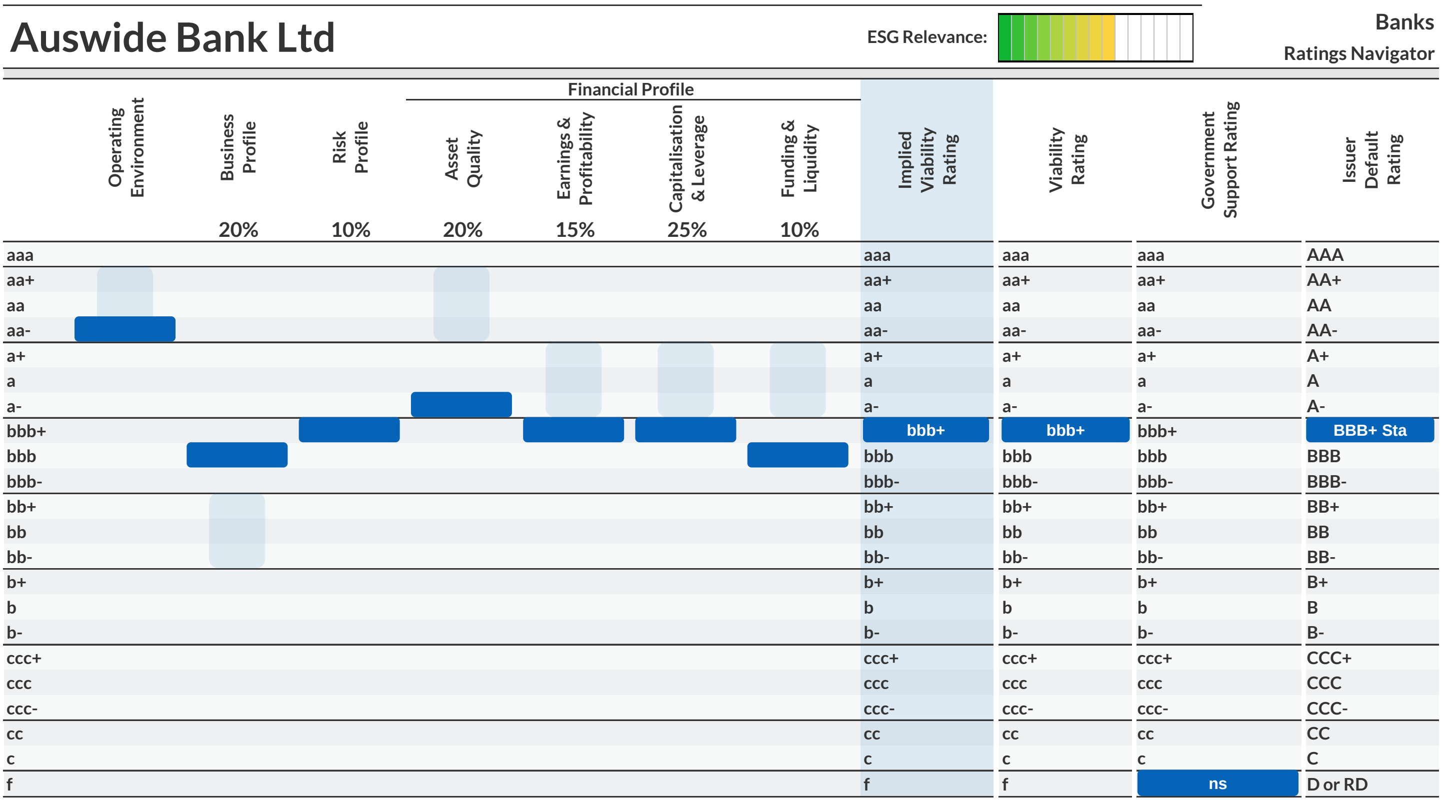
Short-Term IDR

The Short-Term IDR could be upgraded to 'F1' if Fitch revised the funding and liquidity score to 'a', from 'bbb', or upgraded the Long-Term IDR to 'A', although both scenarios are unlikely.

Subordinated Debt

The ratings assigned to Auswide's subordinated Tier 2 bonds will be upgraded if its VR is upgraded.

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 business profile score of 'bbb' has been assigned above the 'bb' category implied score for the following adjustment reason: business model (positive).

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

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

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

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

Company Summary and Key Qualitative Factors

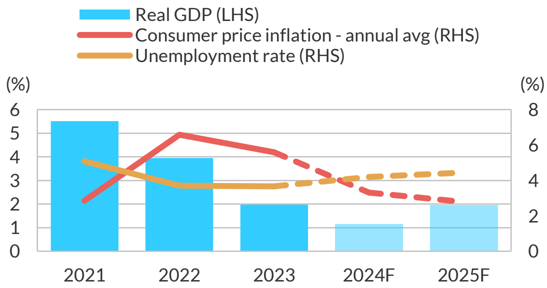
Operating Environment

We expect the economic environment in Australia to remain challenging for banks during 2024. Rapid interest rate rises during 2022 and 2023 to address high inflation are likely to result in a slowdown in economic growth and increase in unemployment during 2024. We expect unemployment to rise to about 4.5% in Australia by 2025. Unemployment rates at these levels are unlikely to result in significant asset-quality deterioration across the system, although pockets of borrowers are likely to be pressured by the higher interest rates.

We expect the Reserve Bank of Australia (RBA) to start cutting interest rates in late 2024, however, risks of persistent inflation mean this could be delayed. Rate cuts should also support borrowers and, ultimately, bank asset quality as the majority of Australian mortgage holders have variable-rate loans. House price increases in Australia through 2023 provide an additional buffer against potential losses for the banks. Higher interest rates have also reduced borrowing capacity, which has resulted in an improvement in the household debt/disposable income ratio, but the ratio remains high relative to most other markets globally. We factor this into our operating environment assessment by placing the score at the lower end of the 'aa' category. Australian household debt/disposable income was 185% at end-2023.

Australia Economy

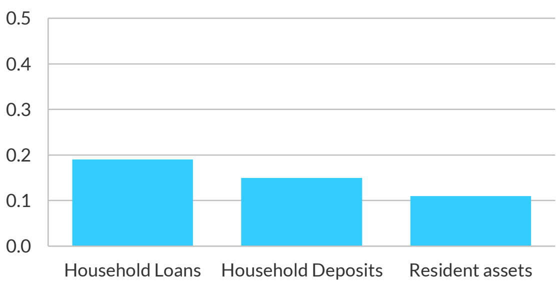
Year end



Source: Fitch Ratings

Market Share

% total system at end-Apr 2024



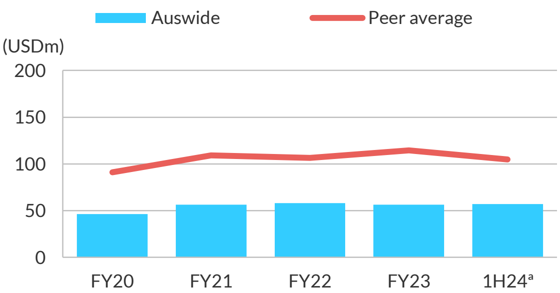
Source: Fitch Ratings, APRA

Business Profile

Auswide is a small regional lender headquartered in Bundaberg, Queensland, with its business being concentrated in its home state. Auswide has been listed on the Australian stock exchange since 1995, and its market capitalisation was around AUD180 million as of June 2024. The bank's operations are geared towards traditional banking such as residential mortgages, and there is low reliance on volatile business segments. The business model has remained consistent through the cycle, which we expect will continue.

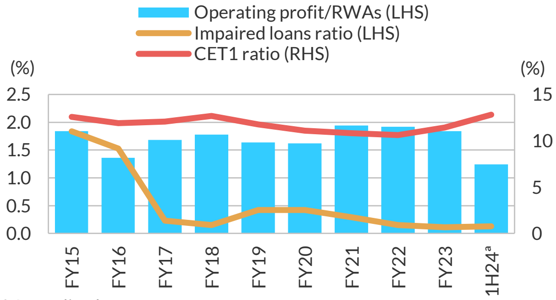
Auswide's market share of gross loans stood around 0.1% and around 0.2% for household loans at end-April 2024. Auswide is a price taker in its core segment of residential mortgages, given its small market position. It operates 17 branches across Queensland, with business development managers in Sydney and Melbourne to conduct interstate business. The bank benefits from stronger market penetration in its home state, which accounts for about two-thirds of its loans. We view management depth and experience as adequate, and comparable with direct peers. The bank's strategic objectives remain relatively stable with a greater emphasis being placed on digital investments. Execution of objectives has generally been consistent over a sustained period, and we believe this will continue.

Total Operating Income



ª Annualised
Source: Fitch Ratings, Fitch Solutions, banks

Performance Through the Cycle



ª Annualised
Source: Fitch Ratings, Fitch Solutions, Auswide

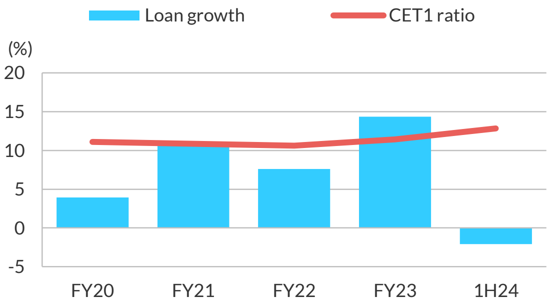
Risk Profile

Fitch believes that Auswide's risk profile is sound and comparable with that of domestic peers with a similar business model. Auswide's risk profile score is above its business profile score to reflect a consistent focus on lower-risk exposures that have underpinned its asset quality over a long period. Its underwriting standards are focused towards lower-risk mortgages and generally in line with those of direct peers.

Credit risk remains the largest source of risk for Auswide, accounting for 91% of RWAs at end-1HFY24. This is consistent with the bank's traditional business model focusing mainly on residential mortgages, which make up 84% of total assets. Its exposure to riskier forms of mortgages, such as interest-only home loans, is significantly below that of the wider sector. We expect loan growth to be subdued due to intense competition and margin pressure over the next two years.

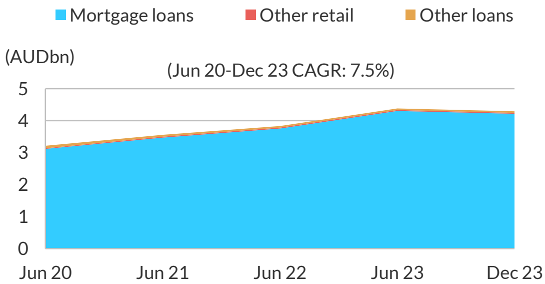
Auswide's control framework appears to be acceptable and is also in line with that of peers, with the bank using the "three lines of defence" model. Underwriting models, processes and application score cards are updated and tested against its control framework on a regular basis. Market risk appears to be low, given the lack of trading activity, while conduct and operational risk appear to be consistent with peers.

Loan Growth



Source: Fitch Ratings, Fitch Solutions, Auswide

Loan Book Breakdown



CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, Auswide

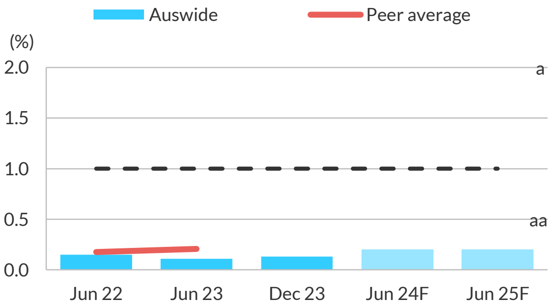
Financial Profile

Asset Quality

Auswide's stage 3 loan ratio is likely to rise from near historical lows over the year, but metrics should remain sound and commensurate with the current factor score of 'a-'. This reflects the bank's focus on lower-risk, owner occupied and amortising mortgages. Loan arrears have slightly increased and also remain low relative to historical levels, but we also expect these to increase over the next 12 months.

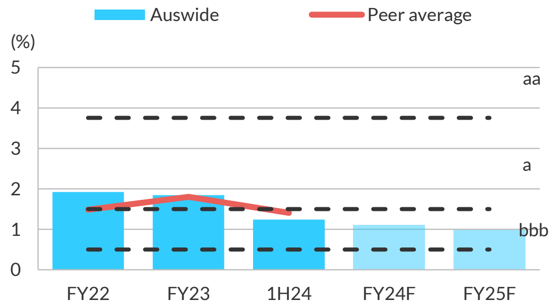
Asset quality remains a strength for the bank's rating, although the assigned score of 'a-' is lower than the implied 'aa' category score to reflect the concentration in residential mortgages and in Queensland. These factors leave its asset quality more susceptible to a significant housing correction than a higher factor score would suggest.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

We expect the core metric, operating profit/RWA ratio, to fall to around 1.1% in FY24, from 1.2% at end-1HFY24, as loan and deposit competition continue to squeeze the NIM. We also anticipate a rise in impairment charges to reflect a moderate weakening in asset quality from the softer economic environment. Auswide's size and low revenue diversification due to its concentration in mortgages, combined with a high reliance on the broker origination channel, means structural changes in the operating environment or home loan segment are likely to have a more outsized impact on Auswide.

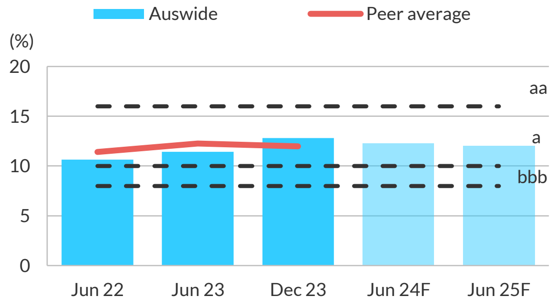
Sharp NIM contraction and negative growth caused a sharp decline in the operating profit/RWA ratio to 1.2% in 1HFY24. The NIM was affected by intense competition for new mortgages and deposits. The bank increased deposits over 1HFY24, partly reflecting a greater focus on retail deposit funding and prefunding for maturity of the term funding facility in mid-2024. We also expect expenses to remain high due to the bank's digital investment plans and inflationary pressures.

Capital and Leverage

Fitch expects Auswide will maintain a CET1 ratio of around 11.5% over the long term, reflecting sound buffers over regulatory minimums. In the short term, the CET1 ratio is likely to remain high because the growth outlook remains subdued. The increase in CET1 ratio in FY23 was largely driven by the final Basel III framework in Australia, which started in January 2023. The new framework increases granularity in the risk-weights for residential mortgages for standardised banks such as Auswide, including lower risk-weights for the less risky loans that Auswide targets. Offsetting this are increased buffer requirements, including through the imposition of a 1pp countercyclical buffer.

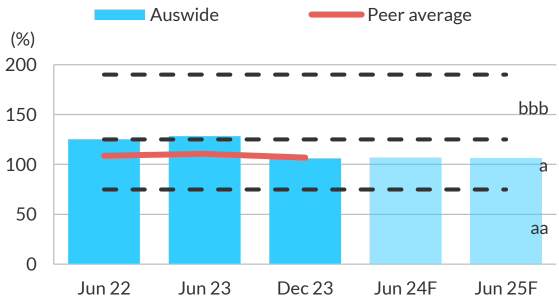
Auswide is a listed company, unlike many of its Australian small bank peers which are mutual entities. This gives Auswide access to fresh capital from shareholders if required, although its market capitalisation is relatively small. Capital can also be supported through the use of the dividend reinvestment plan or issuance of capital relief RMBS. Even so, we consider Auswide's small absolute size (total equity base AUD290 million) as a limiting factor for the score.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

Fitch expects Auswide's funding profile and core metric of loans/customer deposits to remain broadly stable over the next 12 months. Auswide has historically had a higher reliance on wholesale funding relative to similarly rated domestic peers, but we expect deposits to remain the main source of funding. Wholesale funding typically consists of securitisation, floating-rate notes, negotiable certificates of deposit and subordinated debt. These funding sources have provided Auswide with some diversification and longer-dated maturities but are also more susceptible to market confidence.

The bank's liquidity management is appropriate for its size and nature of operations. Auswide is not subject to liquidity coverage ratio and net stable funding ratio requirements because of its size and simple business operations. The assigned score of 'bbb' is lower than the implied 'a' category score, reflecting its deposit structure and modest franchise.

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.

Fitch, to the extent it is aware of material non-public information with respect to future events, such as planned recapitalisations or M&A activity, 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 'aa' category. Light-blue columns represent Fitch's forecasts.

Peer average includes IMB Ltd (BBB+/Stable/bbb+), MyState Limited (BBB+/Stable/bbb+). Financial year-end of Auswide, IMB and MyState is 30 June.

Financials

Summary Financials

	31 Dec 23		30 Jun 23	30 Jun 22	30 Jun 21	30 Jun 20
	6 Months - interim	6 Months - interim	Year end	Year end	Year end	Year end
	(USDm)	(AUDm)	(AUDm)	(AUDm)	(AUDm)	(AUDm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	26	37.3	89.2	82.0	78.2	70.5
Net fees and commissions	n.a.	n.a.	-7.1	-4.5	-3.5	-2.3
Other operating income	4	6.5	1.7	2.7	0.9	0.8
Total operating income	30	43.8	83.8	80.2	75.6	69.0
Operating costs	22	32.8	48.6	43.4	40.3	38.7
Pre-impairment operating profit	8	11.0	35.2	36.8	35.3	30.3
Loan and other impairment charges	0	0.0	-0.7	-0.7	0.6	3.8
Operating profit	8	11.0	35.9	37.5	34.7	26.5
Other non-operating items (net)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Tax	2	3.3	10.8	11.4	10.5	8.0
Net income	5	7.7	25.1	26.1	24.2	18.5
Other comprehensive income	-3	-4.5	-6.0	12.8	1.0	-0.8
Fitch comprehensive income	2	3.2	19.1	38.9	25.2	17.7
Summary balance sheet						
Assets						
Gross loans	2,935	4,290.8	4,381.8	3,832.4	3,561.1	3,212.6
- Of which impaired	4	5.7	4.9	5.9	10.2	13.5
Loan loss allowances	3	4.0	4.0	4.8	6.1	6.8
Net loans	2,932	4,286.8	4,377.8	3,827.6	3,555.0	3,205.8
Interbank	11	16.0	3.0	11.8	12.8	16.3
Derivatives	1	2.0	7.9	16.4	0.0	0.1
Other securities and earning assets	274	400.6	394.0	396.6	400.0	379.2
Total earning assets	3,218	4,705.4	4,782.7	4,252.4	3,967.8	3,601.4
Cash and due from banks	145	211.8	203.2	178.5	112.6	106.5
Other assets	52	75.8	73.6	73.7	75.4	81.6
Total assets	3,415	4,993.0	5,059.5	4,504.6	4,155.8	3,789.5
Liabilities						
Customer deposits	2,769	4,047.6	3,413.5	3,058.7	2,932.6	2,620.4
Interbank and other short-term funding	n.a.	n.a.	629.4	558.6	416.7	398.1
Other long-term funding	413	604.3	673.8	563.6	526.5	505.5
Trading liabilities and derivatives	1	1.3	0.9	0.8	2.7	2.1
Total funding and derivatives	3,183	4,653.2	4,717.6	4,181.7	3,878.5	3,526.1
Other liabilities	34	49.8	48.0	40.8	20.8	21.4
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	198	290.0	293.9	282.1	256.5	242.0
Total liabilities and equity	3,415	4,993.0	5,059.5	4,504.6	4,155.8	3,789.5
Exchange rate		USD1 = AUD1.461988	USD1 = AUD1.508296	USD1 = AUD1.451589	USD1 = AUD1.330141	USD1 = AUD1.457089

Source: Fitch Ratings, Fitch Solutions, Auswide

Key Ratios

	31 Dec 23	30 Jun 23	30 Jun 22	30 Jun 21	30 Jun 20
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	1.2	1.8	1.9	1.9	1.6
Net interest income/average earning assets	1.6	2.0	2.0	2.1	2.0
Non-interest expense/gross revenue	74.9	58.0	54.1	53.3	56.1
Net income/average equity	5.2	8.7	9.7	9.7	7.7
Asset quality					
Impaired loans ratio	0.1	0.1	0.2	0.3	0.4
Growth in gross loans	-2.1	14.3	7.6	10.9	3.9
Loan loss allowances/impaired loans	70.2	81.6	81.4	59.8	50.4
Loan impairment charges/average gross loans	0.0	0.0	0.0	0.0	0.1
Capitalisation					
Common equity Tier 1 ratio	12.8	11.4	10.6	10.8	11.1
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	12.5	11.9	n.a.	11.7
Tangible common equity/tangible assets	4.9	4.9	5.2	5.0	5.1
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	0.8	0.4	0.5	2.1	3.7
Net impaired loans/Fitch Core Capital	n.a.	0.4	0.5	n.a.	3.5
Funding and liquidity					
Gross loans/customer deposits	106.0	128.4	125.3	121.4	122.6
Gross loans/customer deposits + covered bonds	n.a.	n.a.	n.a.	n.a.	n.a.
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	87.0	72.4	73.2	75.7	74.4
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, Auswide

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	a
Government Support Rating	ns
Government ability to support D-SIBs	
Sovereign Rating	AAA/ Stable
Size of banking system	Negative
Structure of banking system	Negative
Sovereign financial flexibility (for rating level)	Positive
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

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

The Government Support Rating of 'no support' assigned to Auswide reflects that there is no reasonable assumption authorities will provide support to the bank, given its small market share and low systemic importance.

Environmental, Social and Governance Considerations

FitchRatings **Auswide Bank Ltd**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Auswide Bank Ltd has 5 ESG potential rating drivers

- Auswide Bank Ltd has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

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

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to 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 www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES