

Credit Union Baywide

Key Rating Drivers

Risk Appetite Drives Ratings: Credit Union Baywide's (CUB) Issuer Default Ratings (IDRs) and Viability Rating are driven by its risk appetite above the average of its bank and building society peers. This is reflected in a greater proportion of mortgages, with loan/value ratios above 80% and consumer loans in its loan book. The risk profile increased modestly as part of M&A undertaken in 2019.

Moderate Capital Buffers: CUB's capitalisation is a weakness for the rating following significant erosion of the buffer in 2019. This was due to the merger with three credit unions in May and the acquisition of all of New Zealand Association of Credit Unions' (trading as Co-op Money NZ; BB-/Stable) base capital notes in November.

Fitch Ratings believes the credit union has a credible plan to restore capital buffers over the next 18 months, although it could be hampered by the integration process. CUB's total regulatory capital ratio was 10.6% at end-September 2019, a buffer of 2.1pp above the regulatory minimum of 8.5%, although this does not incorporate the impact of the Co-op Money NZ acquisition, which further eroded the ratio.

Cyclical Asset Quality: CUB's asset quality is likely to be more volatile than that of some peers through the cycle due to its risk profile, although short-term prospects appear stable. Consumer lending's share of the loan book increased substantially as a result of the merger and is likely to grow further.

Modest Profitability Outlook: Earnings are likely to remain subdued over the next two years as CUB integrates with the entities involved in the M&A while facing lower interest rates and slower loan growth. We believe earning risks are to the downside in the short term, although the merger should provide significant cost synergies over the longer term.

Limited Competitive Advantages: CUB has small system market share, reflecting a moderate franchise and limited competitive advantages in its target markets. This makes CUB a price taker. This is unlikely to change without significant merger activity, which we do not expect – given the nature and size of the domestic credit union sector.

Retail Deposit Funded: Customer deposits are likely to remain the main source of CUB's funding, although one of the merger partners had access to a small warehouse facility that could be re-established by CUB.

Support Unreliable: Fitch believes the existence of a formal resolution scheme for banks in New Zealand, in conjunction with CUB's low systemic importance means sovereign support for CUB cannot be relied on.

Rating Sensitivities

Risk Appetite, Capital: Negative rating action on CUB's IDRs and Viability Rating may result from a large increase in risk appetite, possibly following a significant rebalancing of the loan book towards riskier products, without a commensurate increase in profitability and capital buffers. This could damage asset quality, profitability and capitalisation through the cycle. Failure to improve capital buffers following the Co-op Money NZ acquisition would also pressure the ratings, as CUB would have less capacity to withstand a downturn.

Positive Action Unlikely: Positive rating action would require an improved risk appetite, possibly through more stringent underwriting standards or stronger risk controls, while also significantly improving capital buffers. This appears improbable in the short to medium term.

Ratings

Foreign Currency

Long-Term IDR	BB
Short-Term IDR	B

Local Currency

Long-Term IDR	BB
Short-Term IDR	B

Viability Rating	bb
Support Rating	5
Support Rating Floor	NF

Sovereign Risk

Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA+
Country Ceiling	AAA

Outlooks/Watches

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

[Bank Rating Criteria \(October 2018\)](#)

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

Related Research

[Fitch Affirms Credit Union Baywide at 'BB'; Outlook Stable \(December 2019\)](#)

[Credit Union Baywide – Ratings Navigator \(January 2020\)](#)

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Environmental, Social and Governance Considerations

FitchRatings Credit Union Baywide

Credit-Relevant ESG Derivation

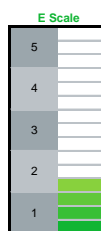
Credit Union Baywide has 5 ESG potential rating drivers

- Credit Union Baywide 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	Overall ESG Scale
	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
	4	issues	2
not a rating driver	5	issues	1

Environmental (E)

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



How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The left-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

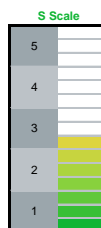
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies the [number of] general ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector and sub-sector ratings criteria and the General Issues and the Sector-Specific Issues have been informed with SASB's Materiality Map.

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

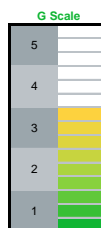
Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Company Profile; Financial Profile



Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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

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

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

Income Statement

	30 Jun 2019		As % of	30 Jun 2018		As % of	30 Jun 2017		As % of	30 Jun 2016		As % of
	Year End	Year End		Year End	Year End		Year End	Year End		Year End		
	USDm	NZDt	Risk Weighted Assets	NZDt	Risk Weighted Assets	NZDt	Risk Weighted Assets	NZDt	Risk Weighted Assets			
	Audited - Unqualified	Audited - Unqualified		Audited - Unqualified		Audited - Unqualified		Audited - Unqualified				
1. Gross Interest and Dividend Income	19	28,474.0	5.7	24,319.0	7.2	20,375.0	6.8	22,154.0	8.7			
2. Total Interest Expense	7	10,362.0	2.1	10,409.0	3.1	7,393.0	2.5	8,886.0	3.5			
3. Net Interest Income	12	18,112.0	3.6	13,910.0	4.1	12,982.0	4.3	13,268.0	5.2			
4. Net Fees and Commissions	0	34.0	0.0	96.0	0.0	511.0	0.2	707.0	0.3			
5. Trading and Investment Income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
6. Other Non-Interest Operating Income	0	35.0	0.0	16.0	0.0	10.0	0.0	8.0	0.0			
7. Total Non-Interest Operating Income	0	69.0	0.0	112.0	0.0	521.0	0.2	715.0	0.3			
8. Total Operating Income	12	18,181.0	3.7	14,022.0	4.2	13,503.0	4.5	13,983.0	5.5			
9. Personnel Expenses	6	9,041.0	1.8	7,850.0	2.3	7,652.0	2.5	7,275.0	2.9			
10. Other Operating Expenses	5	7,322.0	1.5	4,695.0	1.4	4,484.0	1.5	4,502.0	1.8			
11. Total Non-Interest Expenses	11	16,363.0	3.3	12,545.0	3.7	12,136.0	4.0	11,777.0	4.6			
12. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
13. Pre-Impairment Operating Profit	1	1,818.0	0.4	1,477.0	0.4	1,367.0	0.5	2,206.0	0.9			
14. Loan Impairment Charge	1	1,352.0	0.3	468.0	0.1	156.0	0.1	202.0	0.1			
15. Securities and Other Credit Impairment Charges	1	1,951.0	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
16. Operating Profit	-1	-1,485.0	-0.3	1,009.0	0.3	1,211.0	0.4	2,004.0	0.8			
17. Non-operating/ non-recurring income/expense	0	-250.0	-0.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
18. Pre-tax Profit	-1	-1,735.0	-0.3	1,009.0	0.3	1,211.0	0.4	2,004.0	0.8			
19. Tax expense	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
20. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
21. Net Income	-1	-1,735.0	-0.3	1,009.0	0.3	1,211.0	0.4	2,004.0	0.8			
22. Other Comprehensive Income	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.			
23. Total Comprehensive Income	-1	-1,735.0	-0.3	1,009.0	0.3	1,211.0	0.4	2,004.0	0.8			
Exchange rate		USD1 = NZD1.493875		USD1 = NZD1.483459		USD1 = NZD1.365		USD1 = NZD1.4085				

Source: Fitch Ratings, Fitch Solutions, CUB

Balance Sheet

	30 Jun 2019		30 Jun 2018		30 Jun 2017		30 Jun 2016		As % of Assets
	Year End USDm	Year End NZDt	As % of Assets	Year End NZDt	As % of Assets	Year End NZDt	As % of Assets	Year End NZDt	
Assets									
A. Loans									
1. Gross Loans	264	394,146.0	75.6	275,110.0	72.2	267,501.0	85.7	213,276.0	72.6
2. Less: Loan Loss Allowances	5	7,664.0	1.5	616.0	0.2	555.0	0.2	726.0	0.2
3. Net Loans	259	386,482.0	74.2	274,494.0	72.0	266,946.0	85.5	212,550.0	72.4
4. Memo: Impaired Loans included in Gross Loans above	6	9,431.0	1.8	891.0	0.2	943.0	0.3	1,189.0	0.4
5. Memo: Specific Loan Loss Allowances	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Memo: Gross Retail Loans	264	394,146.0	75.6	275,110.0	72.2	267,501.0	85.7	213,276.0	72.6
B. Other Earning Assets									
1. Loans and Advances to Banks	60	89,495.0	17.2	89,003.0	23.4	25,085.0	8.0	65,395.0	22.3
2. Reverse Repos and Securities Borrowing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Securities	2	2,906.0	0.6	3,252.0	0.9	3,252.0	1.0	2,667.0	0.9
5. Other Earning Assets	3	3,861.0	0.7	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Total Earning Assets	323	482,744.0	92.7	366,749.0	96.3	295,283.0	94.6	280,612.0	95.6
C. Non-Earning Assets									
1. Cash and Due From Banks	18	27,568.0	5.3	9,627.0	2.5	14,277.0	4.6	10,254.0	3.5
2. Foreclosed Assets	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Goodwill and Other Intangibles	4	5,428.0	1.0	2,758.0	0.7	1,164.0	0.4	794.0	0.3
4. Other Assets	4	5,290.0	1.0	1,864.0	0.5	1,572.0	0.5	1,919.0	0.7
5. Total Assets	349	521,030.0	100.0	380,998.0	100.0	312,296.0	100.0	293,579.0	100.0
Liabilities and Equity									
D. Interest-Bearing Liabilities									
1. Total Customer Deposits	305	455,310.0	87.4	336,874.0	88.4	269,569.0	86.3	251,809.0	85.8
2. Deposits from Banks	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3. Repos and Securities Lending	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
4. Commercial Paper and Short-term Borrowings	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. Total Long-Term Funding	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
6. Trading Liabilities	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
7. Total Funding	305	455,310.0	87.4	336,874.0	88.4	269,569.0	86.3	251,809.0	85.8
8. Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
9. Total Funding and Derivatives	305	455,310.0	87.4	336,874.0	88.4	269,569.0	86.3	251,809.0	85.8
E. Non-Interest Bearing Liabilities									
1. Other Liabilities	5	7,811.0	1.5	3,231.0	0.8	2,843.0	0.9	3,097.0	1.1
2. Total Liabilities	310	463,121.0	88.9	340,105.0	89.3	272,412.0	87.2	254,906.0	86.8
F. Hybrid Capital									
1. Pref. Shares and Hybrid Capital	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
G. Equity									
1. Total Equity	39	57,909.0	11.1	40,893.0	10.7	39,884.0	12.8	38,673.0	13.2
2. Total Liabilities and Equity	349	521,030.0	100.0	380,998.0	100.0	312,296.0	100.0	293,579.0	100.0
3. Memo: Published Equity incl. Pref. Shares and Hybrid Capital accounted for as Equity	39	57,909.0	11.1	40,893.0	10.7	39,884.0	12.8	38,673.0	13.2
4. Memo: Fitch Core Capital	35	52,481.0	10.1	38,135.0	10.0	38,720.0	12.4	37,879.0	12.9
Exchange rate		USD1 = NZD1.493875		USD1 = NZD1.483459		USD1 = NZD1.365		USD1 = NZD1.4085	

Source: Fitch Ratings, Fitch Solutions, CUB

Summary Analytics

	30 Jun 2019 Year End	30 Jun 2018 Year End	30 Jun 2017 Year End	30 Jun 2016 Year End
A. Interest Ratios				
1. Interest Income/ Average Earning Assets	7.1	7.2	7.1	8.3
2. Interest Expense/ Average Interest-bearing Liabilities	2.8	3.4	2.8	3.7
3. Net Interest Income/ Average Earning Assets	4.5	4.1	4.5	5.0
4. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	4.2	4.0	4.5	4.9
B. Other Operating Profitability Ratios				
1. Operating Profit/ Risk Weighted Assets	-0.3	0.3	0.4	0.8
2. Non-Interest Expense/ Gross Revenues	90.0	89.5	89.9	84.2
3. Loans and securities impairment charges/ Pre-impairment Op. Profit	181.7	31.7	11.4	9.2
4. Operating Profit/ Average Total Assets	-0.4	0.3	0.4	0.7
5. Operating Profit/ Average Equity	-3.2	2.5	3.1	5.3
6. Non-Interest Income/ Gross Revenues	0.4	0.8	3.9	5.1
7. Non-Interest Expense/ Average Total Assets	3.9	3.5	4.0	4.2
8. Pre-impairment Op. Profit/ Average Equity	3.9	3.7	3.5	5.9
9. Pre-impairment Op. Profit/ Average Total Assets	0.4	0.4	0.5	0.8
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	-3.7	2.5	3.1	5.3
2. Net Income/ Average Total Assets	-0.4	0.3	0.4	0.7
3. Net Income/ Risk Weighted Assets	-0.4	0.3	0.4	0.8
D. Capitalization				
1. FCC/ FCC-Adjusted Risk Weighted Assets	10.6	11.3	12.9	14.9
2. Tangible Common Equity/ Tangible Assets	10.2	10.1	12.4	12.9
3. Basel Leverage Ratio	n.a.	n.a.	n.a.	n.a.
4. Common Equity Tier 1 Capital Ratio	n.a.	n.a.	n.a.	n.a.
5. Fully Loaded Common Equity Tier 1 Capital Ratio	n.a.	n.a.	n.a.	n.a.
6. Impaired Loans less Loan Loss Allowances/ Fitch Core Capital	3.4	0.7	1.0	1.2
7. Risk Weighted Assets/ Total Assets	95.2	88.4	96.2	86.8
8. Growth of Risk-Weighted Assets	47.4	12.1	17.9	5.6
E. Loan Quality				
1. Impaired Loans/ Gross Loans	2.4	0.3	0.4	0.6
2. Growth of Gross Loans	43.3	2.8	25.4	-0.8
3. Loan Loss Allowances/ Impaired Loans	81.3	69.1	58.9	61.1
4. Loan Impairment Charges/ Average Gross Loans	0.4	0.2	0.1	0.1
5. Net Charge-offs/ Average Gross Loans	0.4	0.2	0.2	0.4
F. Funding and Liquidity				
1. Gross Loans/ Customer Deposits	86.6	81.7	99.2	84.7
2. Liquidity Coverage Ratio	n.a.	n.a.	n.a.	n.a.
3. Customer Deposits/ Total Funding (excluding derivatives)	100.0	100.0	100.0	100.0
4. Net Stable Funding Ratio	n.a.	n.a.	n.a.	n.a.
5. Growth of Total Customer Deposits	35.2	25.0	7.1	11.3
6. Fitch QJD/ Risk-Weighted Assets	0	0	0	0
7. Net Loans/ Customer Deposits	84.9	81.5	99.0	84.4

Source: Fitch Ratings, Fitch Solutions, CUB

Reference Data

	Year End USDm	30 Jun 2019 Year End NZDt	30 Jun 2018 Year End NZDt	30 Jun 2017 Year End NZDt	30 Jun 2016 Year End NZDt
A. Average Balance Sheet					
1. Average Gross Loans	207	309,536.7	279,106.3	240,388.5	214,158.5
2. Average Earning Assets	269	401,870.7	338,411.0	287,947.5	267,112.0
3. Average Total Assets	284	424,319.0	353,977.3	302,937.5	279,805.0
4. Average Interest-Bearing Liabilities	249	372,367.7	310,337.7	260,689.0	239,053.0
5. Average Equity	31	46,570.7	40,363.7	39,278.5	37,671.0
6. Average Customer Deposits	249	372,367.7	310,337.7	260,689.0	239,053.0
7. Average Risk Weighted Assets	n.a.	n.a.	318,553.7	277,615.7	248,018.0
B. Risk Weighted Assets					
1. Risk Weighted Assets	332	496,224.0	336,668.0	300,439.4	254,792.0
2. Fitch Core Capital Adjustments for Insurance and Securitisation Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.	n.a.
3. Fitch Core Capital Adjusted Risk Weighted Assets	332	496,224.0	336,668.0	300,439.4	254,792.0
4. Other Fitch Adjustments to Risk Weighted Assets	n.a.	n.a.	n.a.	n.a.	n.a.
5. Fitch Adjusted Risk Weighted Assets	332	496,224.0	336,668.0	300,439.4	254,792.0
C. Fitch Core Capital Reconciliation					
1. Total Equity as reported (including non-controlling interests)	39	57,909.0	40,893.0	39,884.0	38,673.0
2. Fair-value adjustments relating to own credit risk on debt issued	0	0.0	0.0	0.0	0.0
3. Non-loss-absorbing non-controlling interests	0	0.0	0.0	0.0	0.0
4. Goodwill	0	0.0	0.0	0.0	0.0
5. Other intangibles	4	5,428.0	2,758.0	1,164.0	794.0
6. Deferred tax assets deduction	0	0.0	0.0	0.0	0.0
7. Net asset value of insurance subsidiaries	0	0.0	0.0	0.0	0.0
8. First loss tranches of off-balance sheet securitizations	0	0.0	0.0	0.0	0.0
9. Fund for general banking risks if not already included and readily convertible into equity	0	0.0	0.0	0.0	0.0
10. Fitch Core Capital	35	52,481.0	38,135.0	38,720.0	37,879.0
D. Fitch Qualifying Junior Debt Buffer Reconciliation					
1. Subordinated Borrowing	n.a.	n.a.	n.a.	n.a.	n.a.
2. Pref. Shares and Hybrid Capital	n.a.	n.a.	n.a.	n.a.	n.a.
3. Fitch Adjustments to Qualifying Junior Debt	0	0.0	0.0	0.0	0.0
4. Fitch Qualifying Junior Debt Buffer	0	0.0	0.0	0.0	0.0
Exchange Rate		USD1 = NZD1.493875	USD1 = NZD1.483459	USD1 = NZD1.365	USD1 = NZD1.4085

Source: Fitch Ratings, Fitch Solutions, CUB

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