

Credit Union Baywide

Key Rating Drivers

Risk Appetite Drives Ratings: Credit Union Baywide's (CUB) Issuer Default Ratings (IDRs) and Viability Rating (VR) are driven by its above-average risk appetite relative to its bank and building society peers, evident in the larger share of mortgages with a loan/value ratio above 80% and consumer loans.

Downside Risk to Ratings: The revision of the Outlook on the Long-term IDRs to Negative from Stable reflects significant downside risk to Fitch's base case. However, CUB's financial profile is sufficiently robust to withstand our base case, which is why the ratings have been affirmed.

Deteriorating Loan Quality: The economic downturn is likely to result in a significant weakening in CUB's asset quality metrics. The loan portfolio weighting towards non-mortgage consumer loans and higher loan/value mortgages makes CUB more susceptible to the economic downturn than some peers. These factors are already captured in the factor score of 'bb', although we have revised the factor outlook to negative from stable.

Weakening Earnings and Profitability: The coronavirus pandemic is likely to result in much higher impairment charges, lower net interest margins and negligible loan growth. CUB's earnings were already under pressure prior to the pandemic due to costs associated with M&A in 2019.

Moderate Capital Buffers: CUB's capitalisation is a rating weakness. We now expect capital buffers to take more than two years to rebuild to levels commensurate with a 'bb' score and have revised the factor outlook to stable from positive as a result.

Generally Stable Funding Profile: Customer deposits are likely to remain the main source of CUB's funding. The credit union maintains significant holdings of liquid assets, which offset its lack of access to the Reserve Bank of New Zealand's liquidity facility.

Limited Competitive Advantages: CUB has a moderate domestic franchise, with a small system market share. This means the credit union has limited competitive advantages in the markets it targets and is therefore generally a price taker.

Rating Sensitivities

Downside Case Pressures Ratings: We are likely to lower our operating environment score if economic outcomes are significantly worse than our base case. This would in turn pressure our scoring of CUB's financial profile and ultimately the IDRs and VR. Ratings may also be downgraded, even if the operating environment score remains unchanged, if there is a substantial weakening in CUB's financial profile.

Base Case Emerges: The Outlook on CUB's Long-Term IDRs is likely to be revised to Stable if our base-case economic scenario emerges.

Upgrade Appears Unlikely: An upgrade of CUB's VR and Long-Term IDRs would require a shallower downturn and swifter recovery than our base case anticipates, as well as a lower risk appetite and increased capital buffers. This appears unlikely in the current environment.

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

Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

Related Research

[Credit Union Baywide - Ratings Navigator \(May 2020\)](#)

[Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update \(April 2020\)](#)

Analysts

Tim Roche
+61 2 8256 0310
tim.roche@fitchratings.com

George Hong
+61 2 8256 0345
george.hong@fitchratings.com

Summary Financials and Key Ratios

	30 Jun 19		30 Jun 18	30 Jun 17	30 Jun 16
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(NZDtrn)	(NZDtrn)	(NZDtrn)	(NZDtrn)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	12	18,112.0	13,910.0	12,982.0	13,268.0
Net fees and commissions	0	34.0	96.0	511.0	707.0
Other operating income	0	35.0	16.0	10.0	8.0
Total operating income	12	18,181.0	14,022.0	13,503.0	13,983.0
Operating costs	11	16,363.0	12,545.0	12,136.0	11,777.0
Pre-impairment operating profit	1	1,818.0	1,477.0	1,367.0	2,206.0
Loan and other impairment charges	2	3,303.0	468.0	156.0	202.0
Operating profit	-1	-1,485.0	1,009.0	1,211.0	2,004.0
Other non-operating items (net)	0	-250.0	n.a.	n.a.	n.a.
Tax	n.a.	n.a.	n.a.	n.a.	n.a.
Net income	-1	-1,735.0	1,009.0	1,211.0	2,004.0
Other comprehensive income	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch comprehensive income	-1	-1,735.0	1,009.0	1,211.0	2,004.0
Summary balance sheet					
Assets					
Gross loans	264	394,146.0	275,110.0	267,501.0	213,276.0
- Of which impaired	6	9,431.0	891.0	943.0	1,189.0
Loan loss allowances	5	7,664.0	616.0	555.0	726.0
Net loans	259	386,482.0	274,494.0	266,946.0	212,550.0
Interbank	60	89,495.0	89,003.0	25,085.0	65,395.0
Derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Other securities and earning assets	5	6,767.0	3,252.0	3,252.0	2,667.0
Total earning assets	323	482,744.0	366,749.0	295,283.0	280,612.0
Cash and due from banks	18	27,568.0	9,627.0	14,277.0	10,254.0
Other assets	7	10,718.0	4,622.0	2,736.0	2,713.0
Total assets	349	521,030.0	380,998.0	312,296.0	293,579.0
Liabilities					
Customer deposits	305	455,310.0	336,874.0	269,569.0	251,809.0
Interbank and other short-term funding	n.a.	n.a.	n.a.	n.a.	n.a.
Other long-term funding	n.a.	n.a.	n.a.	n.a.	n.a.
Trading liabilities and derivatives	n.a.	n.a.	n.a.	n.a.	n.a.
Total funding	305	455,310.0	336,874.0	269,569.0	251,809.0
Other liabilities	5	7,811.0	3,231.0	2,843.0	3,097.0
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	39	57,909.0	40,893.0	39,884.0	38,673.0
Total liabilities and equity	349	521,030.0	380,998.0	312,296.0	293,579.0
Exchange rate		USD1 = NZD1.493875	USD1 = NZD1.483459	USD1 = NZD1.365	USD1 = NZD1.4085

Source: Fitch Ratings, Fitch Solutions

Summary Financials and Key Ratios

	30 Jun 19	30 Jun 18	30 Jun 17	30 Jun 16
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	-0.3	0.3	0.4	0.8
Net interest income/average earning assets	4.5	4.1	4.5	5.0
Non-interest expense/gross revenue	90.0	89.5	89.9	84.2
Net income/average equity	-3.7	2.5	3.1	5.3
Asset quality				
Impaired loans ratio	2.4	0.3	0.4	0.6
Growth in gross loans	43.3	2.8	25.4	-0.8
Loan loss allowances/impaired loans	81.3	69.1	58.9	61.1
Loan impairment charges/average gross loans	0.4	0.2	0.1	0.1
Capitalisation				
Common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	10.6	11.3	12.9	14.9
Tangible common equity/tangible assets	10.2	10.1	12.4	12.9
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Fitch Core Capital	3.4	0.7	1.0	1.2
Funding and liquidity				
Loans/customer deposits	86.6	81.7	99.2	84.7
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	100.0	100.0	100.0	100.0
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions

Environmental, Social and Governance Considerations

FitchRatings Credit Union Baywide

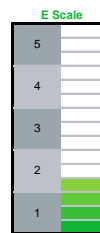
Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Credit Union Baywide has 5 ESG potential rating drivers			Overall ESG Scale	
<ul style="list-style-type: none"> ➤ 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	5
	driver	0	issues	4
	potential driver	5	issues	3
	not a rating driver	4	issues	2
		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 right-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.

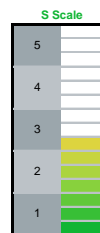
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main 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 ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

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

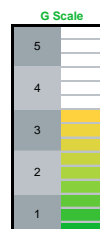
Social (S)

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.

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