

18 May 2020 | Affirmation

Fitch Affirms Christian Savings' Ratings at 'BB'; Outlook Stable

Fitch Ratings-Sydney-18 May 2020:

Fitch Ratings has affirmed New Zealand-based Christian Savings Limited's (CSL) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) at 'BB'. The Outlook is Stable. At the same time, CSL's other ratings have been affirmed.

The affirmation reflects our view that CSL has solid buffers to withstand the downturn in our base case scenario at its current rating level. The Stable Outlook indicates that CSL enters the recession with sufficient headroom in its key financial metrics to remain broadly consistent with the Viability Rating of 'bb'.

Key Rating Drivers

IDRS and VIABILITY RATING

CSL's Long-Term IDRs are driven by its Viability Rating, which reflects its modest franchise. CSL's lending operations are focused on a niche customer base and have limited pricing power relative to the major banks. However, it operates a stable business model and benefits from the relationship between its shareholders and target market. CSL's core objectives have remained consistent under the current management team, and Fitch believes franchise growth is likely to be gradual and through organic means.

Fitch has revised the outlook on the 'a' operating environment score for New Zealand banks to negative from stable to reflect the significant risks posed by the measures undertaken to slow the spread of the coronavirus pandemic. We are likely to revise the outlook to stable if a recovery takes place starting 2H20, meeting our base-case expectations. However, an outcome that is significantly weaker than our base case is likely to result in a lowering of the score to 'a-'. Fitch does not expect CSL's asset quality and earnings to be significantly affected over the next two years, despite the deterioration in the operating environment, and the scores for these factors remain on a stable outlook.

Fitch believes CSL's loan impairments and losses will remain lower than that of peers through the current downturn, reflecting its niche market focus, and steady underwriting and collateral

positions across its loan portfolio. However, CSL continues to have high single-name concentration risk due to the small number of lending customers and this is unlikely to change. Strong growth in recent years has been driven mainly by expanding its target market rather than through aggressive lending practices.

CSL's earnings and profitability are likely to remain consistent with levels we expect of a 'bb' score over the next two years. Some compression in the net interest margin is possible due to lower returns on its liquid asset holdings although loan margins are likely to remain stable. CSL does not provide any transactional banking products, which means the declines in the official cash rate have had less of an impact.

CSL's lending activities are fully funded by a combination of church and household deposits, and reinvestment rates continue to be maintained at a high level. Fitch expects CSL's loan-to-deposit ratio to remain stronger than most of its non-bank deposit taking peers, but it similarly has limited access to contingent funding sources.

Fitch expects CSL's capitalisation to be maintained between 11% and 12% over the next two years. We estimate loan and risk-weighted asset growth will be moderate, which will alleviate pressure on its capitalisation ratios. CSL's ownership structure has allowed it to raise new common equity when required to support growth, unlike some of its non-bank deposit taking peers.

SUPPORT RATING AND SUPPORT RATING FLOOR

CSL's Support Rating and Support Rating Floor reflect our assessment that while support from the New Zealand sovereign (AA/Positive) is possible, it cannot be relied on. CSL is not under the Open Bank Resolution Scheme (OBR), which allows for the imposition of losses on depositors and senior debt holders to recapitalise failed institutions. Fitch believes the existence of the OBR, in conjunction with CSL's low systematic importance, makes sovereign support unlikely.

RATING SENSITIVITIES

IDRS and VIABILITY RATING

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

A lowering of the operating environment score to 'a-' is unlikely to be sufficient by itself to result in a downgrade of CSL's ratings. The ratings are sensitive to a loss of support from its target market as this would ultimately have a significant impact on its future viability. Negative rating action may also be taken if CSL's risk appetite weakens through a loosening in underwriting standards, risk controls or aggressive growth as this is likely to result in weaker core financial metrics, which could

trigger a downgrade if:

- stage 3 loans/gross loans increase above 5% on a consistent basis;
- operating profit/risk-weighted assets falls to 0% on a sustained basis; or
- the Fitch core capital ratio declines below 10.5% without a credible plan to replenish regulatory capital buffers

CSL's financial profile has reasonable buffers at its current rating level as the asset quality, earnings and profitability, capitalisation, and funding and liquidity are all scored at or above the current Viability Rating level. A downgrade in the Viability Rating due to a weakening financial profile would require a combination of the above factors.

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

An upgrade of the Viability Rating and Long-term IDRs is unlikely in the short-term as it would require a significant growth in CSL's franchise likely to be demonstrated through a larger borrower base and lower single name concentration while maintaining risk appetite and limiting deterioration in its financial profile.

SUPPORT RATING AND SUPPORT RATING FLOOR

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

The Support Rating and Support Rating Floor are sensitive to any change in assumptions around the propensity or ability of the New Zealand government to provide timely support. An increased propensity to support would be required for an upgrade but appears unlikely given the resolution framework in place.

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

The Support Rating and Support Rating Floor are already at the lowest level on Fitch's rating scales and cannot be downgraded further.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four

notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Christian Savings Limited; Long Term Issuer Default Rating; Affirmed; BB; RO:Sta
; Short Term Issuer Default Rating; Affirmed; B
; Local Currency Long Term Issuer Default Rating; Affirmed; BB; RO:Sta
; Local Currency Short Term Issuer Default Rating; Affirmed; B
; Viability Rating; Affirmed; bb
; Support Rating; Affirmed; 5
; Support Rating Floor; Affirmed; NF

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Bank Rating Criteria \(pub. 28 Feb 2020\) \(including rating assumption sensitivity\)](#)

Additional Disclosures

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