FitchRatings

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Fitch Upgrades Christian Savings to 'BB+'; Outlook Stable

Fitch Ratings - Sydney - 17 Feb 2022: Fitch Ratings has upgraded New Zealand-based Christian Savings Limited's (CSL) Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to 'BB+' from 'BB', with a Stable Outlook. CSL's Viability Rating (VR) has been upgraded to 'bb+' from 'bb'. The Short-Term IDRs of 'B' have been affirmed.

The rating action reflects the upgrade of a few of CSL's VR factor scores including risk profile, asset quality, earnings and profitability, funding and liquidity.

Rating Withdrawals

Fitch is withdrawing the Support Ratings of '5' and Support Rating Floors of 'NF' assigned to CSL because they are no longer relevant to the agency's coverage following the publication of our updated Bank Rating Criteria on 12 November 2021. In line with the updated Criteria, we have assigned CSL a Government Support Rating (GSR) of 'ns'.

Key Rating Drivers

IDRS and VIABILITY RATING

CSL's Long-Term IDRs are driven by its VR, 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.

Key Rating Driver 1

We expect the operating environment for New Zealand non-bank deposit takers (NBDTs) to remain stable and consistent with the 'a-' factor score. High household leverage remains a key risk for New Zealand's banking system, particularly in light of strong house-price appreciation through 2020 and 2021, and drives the negative adjustment from the 'aa(cat)' implied operating environment score.

We also adjust the score to reflect the less stringent regulatory oversight of NBDTs relative to registered banks in the operating environment assessment, resulting in a score one notch below the registered banks. However, New Zealand is in the process of aligning regulation of all deposit takers under one framework, after which we would consider aligning the NBDT operating environment score with that of New Zealand banks.

CSL accounts for less than 0.1% of New Zealand bank and non-bank system assets although it is the country's largest lender of its type. CSL's Business Profile score of 'bb-' is above the 'b(cat)' implied score, which takes into consideration its consistent business model and stable performance. This provides some offset to its limited franchise. CSL also has a level of competitive advantages stemming from the close relationship with its shareholders and borrowers.

CSL's Risk Profile score has been reassessed under the current criteria. The assigned score of 'bb+' is one notch higher than the previous risk appetite score of 'bb'. Fitch has also revised CSL's asset-quality factor score to 'bbb-' from 'bb+', reflecting its very low historical credit losses and strong asset-quality metrics. The implied asset-quality score is in the 'aa' category, however we have applied a negative adjustment to reflect CSL's high single-name concentration.

We expect CSL's impaired-loan ratio to remain very low over the next two years. It reported no past due loans at end-August 2021, and we expect this to continue in financial year 2022 (FY22, to August 2022). This reflects CSL's underwriting and collateral positions across its loan portfolio.

Fitch expects steady improvement in profitability in the next two years. This reflects our expectation of stable interest margins and strong loan growth. Therefore, we have revised CSL's profitability factor score to 'bb+' from 'bb' with a stable outlook. The four-year average of CSL's operating profit/risk-weighted assets (RWA) was 0.8% at end-August 2021, which indicates a low 'bbb(cat)' score. We believe this metric will continue to improve over the medium term. We have applied a negative adjustment to reflect CSL's high reliance on interest income and lack of revenue diversification.

Fitch believes CSL's Fitch core capital and total regulatory capital ratios will be maintained towards the higher end of its peer group. However, a modest decline is likely, reflecting our expectation of strong loan growth over the next two years. An injection of new equity from existing or new shareholders could provide additional support to CSL's capitalisation, if needed. CSL's regulatory capital ratio stood at 15.7% at end-November 2021, which indicates a low 'a' score. We have maintained the factor score of 'bb+' after incorporating a negative adjustment to reflect the small absolute size of its capital base (NZD32 million or USD22 million at end-November 2021) and high single-name concentration.

Fitch expects CSL's funding and liquidity profile to remain generally stable. Its core metric, the loan/customer deposit ratio, should be maintained below 90% over the next two years. We have consequently revised CSL's funding score to 'bbb-' from 'bb+'. The four-year average of the core metric indicates a low 'a' factor score, but we apply a negative adjustment to reflect CLS's lack of access to the Reserve Bank of New Zealand lender of last resort liquidity facilities.

CSL's Short-Term IDR of 'B' is driven by its Long-Term IDR of 'BB'.

GOVERNMENT SUPPORT RATING

The GSR of 'ns' assigned to CSL reflects our expectation that there is no reasonable assumption of support being forthcoming because of New Zealand's open bank resolution scheme (OBR). CSL 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 the existence of the scheme, in conjunction with CSL's low systemic importance, makes sovereign support doubtful.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

IDRS AND VIABILITY RATING

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 profile 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 a combination of the following were to occur:

- stage 3/gross loans ratio increases above 8% on a consistent basis;

- operating profit/risk-weighted assets falls below 0.5% on a sustained basis; or

- the Fitch core capital ratio declines below 11.5% without a clear path to return above this level

- the loans/customer deposits ratio increases to above 100% on a sustained basis.

CSL's Short-Term IDR would only be downgraded if the Long-Term IDR were downgraded to 'CCC+' or below.

GOVERNMENT SUPPORT RATING

The GSR is at the lowest point on the scale, and no negative action is possible.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

IDRS AND VIABILITY RATINGS

An upgrade of the Viability Rating and Long-Term IDRs is unlikely in the short-term as this would require a significant growth in CSL's franchise.

An upgrade of the Short-Term IDR would require an upgrade of the Long-Term IDR to at least 'BBB-'.

GOVERNMENT SUPPORT RATING

An increased propensity for the New Zealand authorities to support would be required for an upgrade of the GSR, but appears unlikely in light of the resolution framework in place and CSL's small size relative to the overall financial system.

VR ADJUSTMENTS

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 'bbb-' has been assigned below the 'aa' 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).

The funding and liquidity score of 'bbb-' has been assigned below the 'a' category implied score because of the following adjustment reason: Liquidity access and ordinary support (negative).

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond 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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Christian Savings Limited	LT IDR	BB+	Upgrade		BB
	ST IDR	B	Affirmed		B
	LC LT IDR	BB+	Upgrade		BB
	LC ST IDR	B	Affirmed		B
	Viability	bb+	Upgrade		bb

ENTITY/DEBT	RATING			RECOVERY	PRIOR
	Support	WD	Withdrawn		5
	Support Floor	WD	Withdrawn		NF
	Government Support	ns	New Rating		

RATINGS KEY	OUTLOOK	WATCH
POSITIVE	⊕	⬘
NEGATIVE	⊖	⬙
EVOLVING	◉	◆
STABLE	⊙	

Applicable Criteria

Bank Rating Criteria (pub.12 Nov 2021) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Christian Savings Limited	EU Endorsed, UK Endorsed

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Endorsement policy

Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.