



Police and Families Credit Union rated BBB by Equifax

Friday, 30 June 2017, 11am AEST: Equifax Credit Ratings has assigned Police and Families Credit Union (PFCU) a credit rating of 'BBB'. The outlook for the credit rating is Stable.

PFCU is a not-for-profit, Reserve Bank of New Zealand (RBNZ) licenced Non-Bank Deposit Taking (NBDT) institution that provides financial services to current and retired police personnel and their immediate family.

PFCU's credit rating reflects its established relationship with the New Zealand Police, access to police personnel payroll for repayments, conservative credit management policies, a high proportion of deposit funding, and significant capital and liquidity buffers. However, PFCU's rating is constrained by its small scale of operations, the internal restriction on the use of wholesale debt funding and the threat of losing members to new entrants with disruptive business models.

PFCU has an entrenched relationship with the New Zealand Police. Constabulary members of the credit union represented over 77% of the constabulary of the New Zealand Police in 2015 and increased to 78% in 2016. This relationship alleviates the liquidity and operating risk from a correlated migration of member accounts to competitors.

PFCU maintains a 1.5x buffer to the minimum level of regulatory Common Equity Tier 1 capital (12.9% buffer over the 8% regulatory requirement as of April 2017). This is a significant capital cushion that offsets the limitation that PFCU's only source of Common Equity Tier 1 capital is retained earnings - which is slow to accrue compared to the effect of policy driven credit expansion and contraction leading to the volatility of its capital ratio.

PFCU's liquidity, measured as cash equivalents and short-term deposits (<12 months) as a percentage of total assets, of 51% (April 2017) is conservative relative to our estimates of the ordinary demands on its liquidity and relative to the liquidity buffers maintained by its peers. A risk to PFCU's liquidity is its constitutional prohibition on the use of wholesale funding leaving it vulnerable to an extraordinary demand, such as a systemic shock - on its liquid assets.

The vast majority of PFCU's loans (April 2017: 88.1%) are secured by a charge over retirement funds in Police Superannuation Scheme (PSS) and Government Superannuation Fund (GSF) which, together with its access to payroll, underpins its asset quality.

A constraint to PFCU's credit rating is its small scale of operations. Its niche focus gives rise to an amplified exposure to segment-specific diversifiable risks. One such risk is the susceptibility to a loss of members due to cyclical fluctuations in the number of New Zealand police personnel. PFCU's member numbers declined by 2% in 2016 compared to an even higher percentage reduction in the constabulary of the New Zealand Police over the corresponding period. Equifax Credit Ratings expects PFCU's target market to grow over the next five years supported by positive net migration and the resulting requirement for additional police personnel on active duty.

PFCU's traditional product offering increases its vulnerability to disruption from new entrants with disintermediated funding models. Large-scale competitors that offer a wider scope of products have the option of repricing their product suite to meet this challenge. Loans and credit related products may be sold at a loss and profits recovered through ancillary services, which would put price pressure on PFCU's net interest margin.



Contact:

Primary Analyst,
Anuj Kindra, CFA anuj.kindra@equifax.com

Rating Committee Chairperson,
Johann Kenny, CFA johann.kenny@equifax.com

Media Contact:

Philippa Hill Philippa.hill@equifax.com

Regulatory Disclosures

Equifax Australasia Credit Ratings Pty Ltd (Equifax Credit Ratings) is a Credit Rating Agency regulated by the Reserve Bank of New Zealand. Equifax Credit Ratings also holds an Australian Financial Services License (AFS License no. 341391) which licenses it to provide credit ratings to wholesale clients in Australia.

The credit rating issued by Equifax Credit Ratings reflects our current opinion of the relative credit risk of the institution. This opinion has been formed in accordance with Equifax's published credit ratings methodology - financial institution rating criteria (version 4, 2017).

<http://www.corporatescorecard.co.nz/docs/RatingMethodologyFinancialInstitutionRatingCriteria.pdf>

The credit rating and associated assessments, opinions and observations are solely statements of opinion. They are not statements of fact. They do not constitute advice or a recommendation. The credit rating does not guarantee the performance of the rated issuer or relevant security, and should not be relied on for the purposes of making an investment decision. All information used in the credit rating process is obtained by Equifax from sources believed by it to be accurate and reliable. Equifax adopts all necessary measures so the information used in assigning a credit rating is of sufficient quality and from sources believed to be reliable including, when appropriate, independent third-party sources. However because of the existence of human or system error, or other factors, all information contained herein is provided 'as is' without warranty of any kind. Equifax is not an auditor and cannot in every instance independently verify or validate information received in the rating process. The information contained in this release is a summary of our assessment only. It is not comprehensive and it must be read subject to the detail and qualifications set out in our full report. Use of information contained in this release and our full report is at the recipients own risk. To the extent permitted by law, Equifax Credit Ratings, its directors, officers, employees and any persons associated with the preparation of the release and our full report are not liable to any person in respect of anything (or the consequences of anything) done or omitted to be done by any person in reliance on any of the contents of the release or our full report; and are not responsible for any errors or omissions in the release or our full report resulting from any inaccuracy, mis-description or incompleteness of the information provided or from assumptions made or opinions reached by the parties providing the Information. All information contained herein is protected by law, including but not limited to copyright law, and this information may not be copied or otherwise reproduced, repackaged, further transmitted, transferred, disseminated, redistributed or resold, or stored for subsequent use for any such purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person without Equifax's prior written consent.

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of Equifax Australasia Credit Ratings Pty Ltd [AFSL #341391]. This document is intended to be provided only to 'wholesale clients' within the meaning provided by the Corporations Act 2001. By continuing to access this document from within Australia, you represent to Equifax that you are, or are accessing the document as a representative of, a 'wholesale client' and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to 'retail clients' within the meaning of the Corporations Act 2001. Equifax's credit rating is an opinion as to the creditworthiness of an issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be inappropriate for 'retail clients' to make any investment decision based on Equifax's credit rating, and Equifax recommends you consult with your financial or other professional adviser.

Please refer to www.corporatescorecard.co.nz/services_credit_ratings.php for further information and additional regulatory disclosures, including our code of conduct, published ratings, criteria and methodologies.