

ANZ Bank New Zealand Limited

Key Rating Drivers

Support-Driven IDRs: The downgrade of ANZ Bank New Zealand's (ANZNZ) Issuer Default Ratings (IDRs) to 'A+' from 'AA-' follows similar action on its parent, Australia and New Zealand Banking Group Limited (ANZ; A+/Negative). ANZNZ's IDRs are aligned with ANZ, reflecting Fitch Ratings' view that it is a key and integral part of the group.

Strong Franchise, Simple Model: ANZNZ's strong domestic franchise, reflected in leading market shares in many products, means that it can maintain a simple business model. This in turn supports the financial profile and, ultimately, the Viability Rating (VR).

Economic Headwinds: We have revised the operating environment outlook for New Zealand banks to negative to reflect significant downside risk to our base-case expectations. Our base case expects a sharp economic contraction in 1H20 before a modest recovery starting in 2H20.

Asset Quality Pressured: We expect ANZNZ's asset quality to be pressured by the weaker economy. Government and bank actions should provide some offset, although it is unlikely to prevent a significant weakening of metrics over the next 12-18 months.

Lower Profitability: Higher impairment charges and lower interest rates will pressure ANZNZ's profitability over the next two years. The bank's franchise should support profitability in the longer-term.

Capitalisation Sufficient at VR: Fitch believes ANZNZ's capitalisation will remain consistent with the current VR despite asset quality weakening and lower earnings placing some pressure on ratios.

Wholesale Funding Reliance: Sound liquidity management and support from the central bank mean ANZNZ is unlikely to face short-term funding pressure. However, the offshore wholesale funding reliance is a weakness relative to many similarly rated international peers.

Rating Sensitivities

Changed Support Prospects: ANZNZ's IDRs and Outlooks are likely to be changed to reflect any movement in ANZ's ratings. ANZ's ratings could be pressured by economic conditions that significantly underperform our baseline case expectations. Growth to a level where ANZNZ's size relative to the ANZ group may limit the ability of ANZ to provide support may exert pressure on the ratings.

The Support Ratings and IDRs may also be downgraded should Fitch change its view on ANZNZ's importance to ANZ, or if there is a weakening in co-operation between the authorities in Australia and New Zealand which may indicate a reduced ability for ANZ to provide support in a timely fashion. However, neither of these scenarios is likely in our view.

Economic Shock: ANZNZ has sufficient headroom at the current VR to withstand our base-case scenario, with most factors scored in line with or above the VR. However, a more severe and prolonged downturn, resulting in only a shallow recovery in New Zealand in 2021, would put pressure on asset quality, earnings and possibly capitalisation, which may result in a downgrade.

Ratings

Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Local Currency

Long-Term IDR	A+
Short-Term IDR	F1

Viability Rating	a
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Support Rating	1
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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

[ANZ Bank New Zealand Limited - Ratings Navigator \(April 2020\)](#)

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

[Global Economic Outlook - Coronavirus Crisis Update April 2 2020 \(April 2020\)](#)

[Regulatory Measures Support New Zealand Banks, but Risks Remain \(March 2020\)](#)

[Coronavirus Adds Pressure to Australia, New Zealand Bank Earnings \(March 2020\)](#)

[ANZ Bank New Zealand Limited \(March 2020\)](#)

Analysts

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Summary Financials and Key Ratios

	Year end (USDm) Audited - unqualified (emphasis of matter)	30 Sep 19 Year end (NZDm) Audited - unqualified (emphasis of matter)	30 Sep 18 Year end (NZDm) Audited - unqualified	30 Sep 17 Year end (NZDm) Audited - unqualified	30 Sep 16 Year end (NZDm) Audited - unqualified
Summary income statement					
Net interest and dividend income	2,036	3,244.0	3,150.0	3,037.0	3,002.0
Net fees and commissions	257	409.0	410.0	409.0	422.0
Other operating income	271	432.0	676.0	529.0	430.0
Total operating income	2,564	4,085.0	4,236.0	3,975.0	3,854.0
Operating costs	1,009	1,608.0	1,517.0	1,465.0	1,599.0
Pre-impairment operating profit	1,555	2,477.0	2,719.0	2,510.0	2,255.0
Loan and other impairment charges	63	101.0	55.0	62.0	150.0
Operating profit	1,491	2,376.0	2,664.0	2,448.0	2,105.0
Other non-operating items (net)	66	105.0	40.0	-3.0	n.a.
Tax	416	662.0	751.0	680.0	570.0
Net income	1,142	1,819.0	1,953.0	1,765.0	1,535.0
Other comprehensive income	-22	-35.0	-14.0	1.0	85.0
Fitch comprehensive income	1,120	1,784.0	1,939.0	1,766.0	1,620.0
Summary balance sheet					
Assets					
Gross loans	83,498	133,022.0	126,978.0	118,206.0	115,245.0
- Of which impaired	458	729.0	321.0	357.0	426.0
Loan loss allowances	312	497.0	512.0	579.0	622.0
Net loans	83,186	132,525.0	126,466.0	117,627.0	114,623.0
Interbank	121	193.0	656.0	536.0	396.0
Derivatives	7,323	11,666.0	8,086.0	9,878.0	21,110.0
Other securities and earning assets	11,669	18,590.0	16,587.0	16,564.0	18,133.0
Total earning assets	102,299	162,974.0	151,795.0	144,605.0	154,262.0
Cash and due from banks	1,297	2,066.0	2,064.0	1,978.0	2,045.0
Other assets	2,747	4,376.0	5,153.0	7,390.0	4,512.0
Total assets	106,342	169,416.0	159,012.0	153,973.0	160,819.0
Liabilities					
Customer deposits	68,487	109,108.0	103,124.0	95,790.0	89,768.0
Interbank and other short-term funding	4,342	6,917.0	7,890.0	8,320.0	11,598.0
Other long-term funding	16,450	26,207.0	25,135.0	24,606.0	23,296.0
Trading liabilities and derivatives	6,931	11,042.0	8,095.0	9,826.0	22,113.0
Total funding	96,210	153,274.0	144,244.0	138,542.0	146,775.0
Other liabilities	1,075	1,712.0	1,659.0	2,650.0	1,334.0
Preference shares and hybrid capital	188	300.0	300.0	300.0	300.0
Total equity	8,869	14,130.0	12,809.0	12,481.0	12,410.0
Total liabilities and equity	106,342	169,416.0	159,012.0	153,973.0	160,819.0
Exchange rate		USD1 = NZD1.593117	USD1 = NZD1.511487	USD1 = NZD1.38485	USD1 = NZD1.3829

Summary Financials and Key Ratios (Cont.)

	30 Sep 19	30 Sep 18	30 Sep 17	30 Sep 16
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.5	3.2	3.0	2.4
Net interest income/average earning assets	2.1	2.1	2.0	2.0
Non-interest expense/gross revenue	39.4	35.9	36.9	41.5
Net income/average equity	13.5	15.0	13.9	12.3
Asset quality				
Impaired loans ratio	0.6	0.3	0.3	0.4
Growth in gross loans	4.8	7.4	2.6	7.7
Loan loss allowances/impaired loans	68.2	159.5	162.2	146.0
Loan impairment charges/average gross loans	0.1	0.1	0.1	0.1
Capitalisation				
Common equity tier 1 ratio	10.8	11.1	10.7	10.0
Fully loaded common equity tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	11.1	11.6	11.3	10.3
Tangible common equity/tangible assets	6.5	6.1	6.1	5.7
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.
Net impaired loans/Common equity Tier 1	2.2	-2.1	-2.5	-2.3
Net impaired loans/Fitch Core Capital	2.2	-2.0	-2.4	-2.2
Funding and liquidity				
Loans/customer deposits	121.9	123.1	123.4	128.4
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.
Customer deposits/funding	76.6	75.6	74.3	71.8
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, ANZNZ

Environmental, Social and Governance Considerations

FitchRatings ANZ Bank New Zealand Limited

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

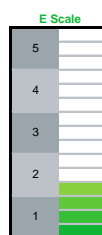
ANZ Bank New Zealand Limited has 5 ESG potential rating drivers

- ANZ Bank New Zealand Limited 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.

Overall ESG Scale			
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.

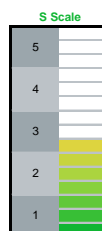
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far 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.

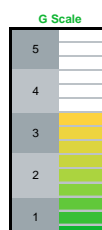
Social (S)

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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