ANZ Bank New Zealand Limited

Update

Key Rating Drivers

Support-Driven IDRs: ANZ Bank New Zealand Limited's (ANZNZ) Issuer Default Ratings (IDR) and Outlook are aligned with the IDRs of its parent, Australia and New Zealand Banking Group Limited (ANZ, A+/Stable/a+), reflecting an extremely high probability of support, if required. ANZNZ is a key and integral part of ANZ, offering products and services to clients in a market the group considers core.

Fitch Ratings also considers that any default of ANZNZ would constitute a huge reputational risk for ANZ, damaging its franchise, and that there is a strong level of integration with the parent when aligning the IDRs. Fitch expects the Australian and New Zealand banking regulators to work together to ensure the stability of both financial systems, allowing support to flow as required.

Market Position Underpins Viability Rating: ANZNZ’s Viability Rating (VR) is driven by its large domestic market position, which allows for a simple business model and underpins the financial profile. The bank has maintained a near 30% market share through a number of cycles and we think this is unlikely to be eroded significantly in the short-to-medium term unless it suffers substantial reputational damage.

Economic Risks Recede: New Zealand's handling of the health crisis has allowed for a strong economic rebound. Fitch estimates real GDP expanded by 5.0% in 2021 and forecasts 3.5% in 2022. Record low unemployment should continue to support bank asset quality, although we expect further central bank rate rises in 2022 to tackle inflation. Growth in household leverage has accompanied strong house price increases, with authorities flagging additional macroprudential measures if needed.

Asset Quality Pressure: We expect asset-quality metrics to deteriorate in 2022 as support measures are removed, but deterioration should be manageable. Earnings headwinds, including slower system loan growth and continued high investment levels, will persist but rising interest rates and the write-back of provisions should offset these in 2022, resulting in relatively stable earnings.

Improved Capital, Stable Funding: ANZNZ's common equity Tier 1 (CET1) ratio is likely to continue increasing to address new regulatory requirements. Ample system liquidity means pressure on the funding and liquidity score is unlikely over the next two years.

Rating Sensitivities

Changed Support Prospects: ANZNZ's IDRs and Outlook are likely to move in line with any changes in ANZ's IDRs. The Support Rating and IDRs may also be downgraded should Fitch change our view on ANZNZ's importance to ANZ, or if there is a weakening in co-operation between the authorities in Australia and New Zealand.

Weaker Financial Profile: ANZNZ's VR may be downgraded if a combination of the following occurs: stage 3 loans/gross loans increase above 1.5% for a sustained period; operating profit/risk-weighted assets falls consistently below 2% under the current capital framework; and the CET1 ratio declines below 10.5% under the current framework without a credible plan to return above this level.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Local Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	a
Support Rating	1
Sovereign Risk	
Long-Term Foreign-Currency IDR	AA
Long-Term Local-Currency IDR	AA+
Country Ceiling	AAA

Outlooks

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

Applicable Criteria

Bank Rating Criteria (November 2021)

Bank Rating Criteria - Effective from 28 February 2020 to 12 November 2021 (February 2020)

Related Research

ANZ Bank New Zealand Limited (July 2021)

Fitch Affirms ANZ Bank New Zealand Limited at 'A+'; Outlook Stable (June 2021)

Fitch Ratings 2022 Outlook: Asia-Pacific Developed Market Banks (December 2021)

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Debt Rating Classes

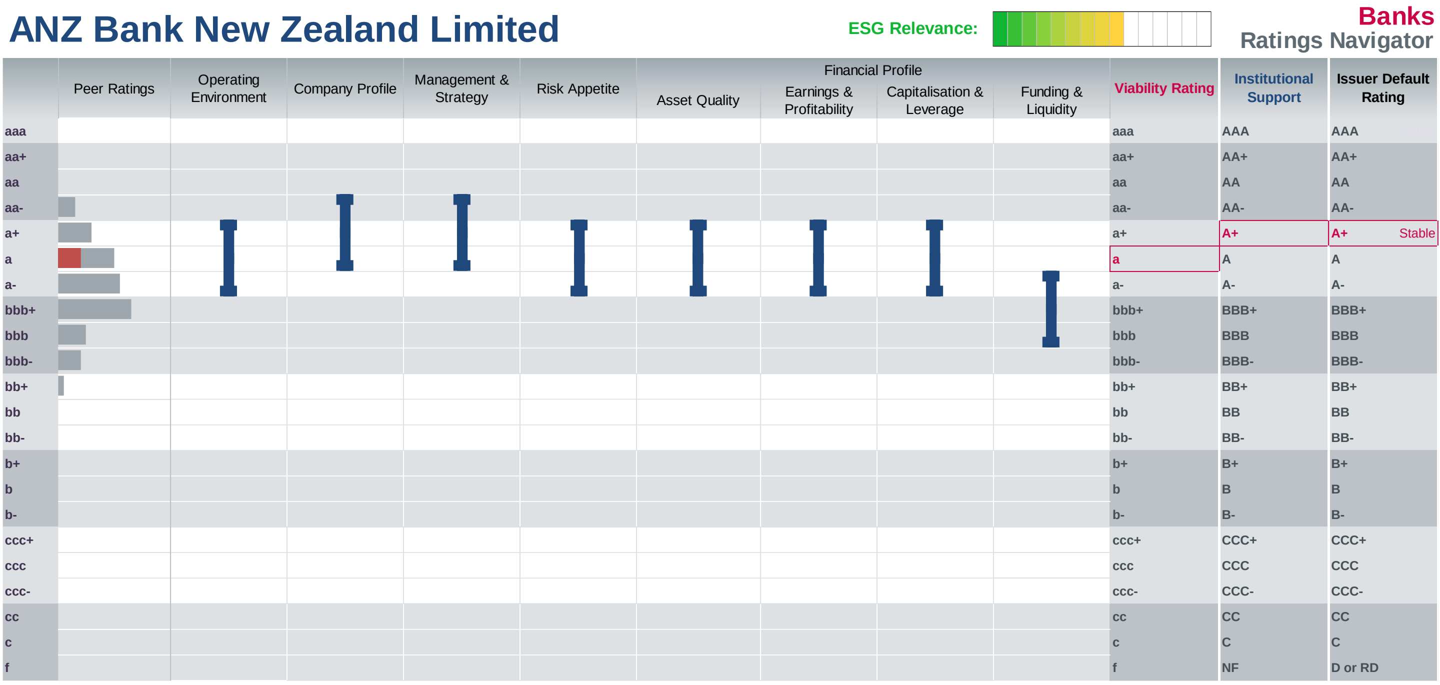
Rating Level	ANZ Bank of New Zealand Limited	ANZ New Zealand (Int'l) Limited
Senior unsecured: Long-Term	A+	-
Senior unsecured: Short-Term	F1	-
Guaranteed: Long-Term	-	A+
Guaranteed: Short-Term	-	F1

Source: Fitch Ratings

ANZNZ's seniors unsecured debt ratings are aligned with the bank's IDRs, consistent with the typical notching in Fitch's Bank Rating Criteria. None of the reasons for alternative notching apply.

ANZNZ issues its foreign-currency wholesale funding through its wholly owned subsidiary, ANZ New Zealand (Int'l) Limited (ANZIL). ANZIL is used for funding purposes only and is not rated by Fitch; Fitch only rates the debt that it issues. The senior unsecured debt ratings are aligned with ANZNZ's IDRs, as ANZNZ guarantees ANZIL's senior unsecured debt instruments and the guarantee ranks pari passu with ANZNZ's senior unsecured debt.

Ratings Navigator



Latest Development

Solid Outlook for Operating Environment

New Zealand's economic performance has been supported by the success of the authorities in dealing with the health crisis, allowing the domestic economy to reopen quickly. Fitch estimates real GDP expanded by 5.0% in 2021 and forecasts 3.5% in 2022. The unemployment rate has fallen to an all-time low of 3.4%, which should provide some support to bank asset quality as the effect of the unwinding of pandemic-related support measures works its way through the economy. Inflation has accelerated, resulting in an increase in the cash rate of 50bp in 2H21 by the Reserve Bank of New Zealand (RBNZ), and we expect a further 75bp of increases in 2022.

House price growth accelerated significantly through late 2020 and early 2021 and could pose a risk to financial stability in the medium term. As a result, the RBNZ reimplemented macroprudential limits that are tighter than those in place prior to the pandemic and the government enacted policies aimed at moderating price growth. The RBNZ has also flagged additional measures, including debt/income limits, that could be enforced in 2022. Household debt/disposable income was 169% at end-June 2021, a record high for this measure.

Strong Earnings Rebound in 2021

ANZNZ's earnings in the year to end-September 2021 (FY21) outperformed our expectations, largely reflecting better asset quality and a write-back of provisions. We expect the earnings performance to stabilise in FY22 as rising interest rates and further write-backs of pandemic related provisions offset a slowdown in loan growth and continued investment in the business.

Capitalisation is in turn likely to continue increasing, although metrics may change as the new, tighter regulatory requirements begin implementation. We expect ANZNZ to have little difficulty meeting the new capital rules by the 2028 final implementation date. ANZNZ's CET1 ratio rose to 13.4% by FYE21 from 11.7% at FYE20, driven by the rebound in earnings and ongoing dividend restrictions.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colours – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▫ Stable

Summary Financials and Key Ratios

		30 Sep 2021	30 Sep 2020	30 Sep 2019	30 Sep 2018	30 Sep 2017
	Year End	Year End	Year End	Year End	Year End	Year End
	USDm	NZDm	NZDm	NZDm	NZDm	NZDm
	Audited - Unqualified(Emphasis of Matter)	Audited - Unqualified(Emphasis of Matter)	Audited - Unqualified(Emphasis of Matter)	Audited - Unqualified(Emphasis of Matter)	Audited - Unqualified	Audited - Unqualified
Summary Income Statement						
Net interest and dividend income	2,354	3,424.0	3,262.0	3,244.0	3,150.0	3,037.0
Net fees and commissions	382	555.0	558.0	666.0	660.0	409.0
Other operating income	144	210.0	281.0	175.0	426.0	529.0
Total operating income	2,880	4,189.0	4,101.0	4,085.0	4,236.0	3,975.0
Operating costs	1,114	1,621.0	1,724.0	1,608.0	1,517.0	1,468.0
Pre-impairment operating profit	1,765	2,568.0	2,377.0	2,477.0	2,719.0	2,507.0
Loan and other impairment charges	-78	-114.0	403.0	101.0	55.0	62.0
Operating profit	1,844	2,682.0	1,974.0	2,376.0	2,664.0	2,445.0
Other non-operating items (net)	n.a.	n.a.	-60.0	105.0	40.0	n.a.
Tax	511	743.0	541.0	662.0	751.0	680.0
Net income	1,333	1,939.0	1,373.0	1,819.0	1,953.0	1,765.0
Other comprehensive income	-5	-8.0	92.0	-35.0	-14.0	1.0
Fitch comprehensive income	1,327	1,931.0	1,465.0	1,784.0	1,939.0	1,766.0
Summary Balance Sheet						
Assets						
Gross loans	97,158	141,341.0	133,392.0	133,022.0	126,978.0	118,206.0
- of which impaired	531	773.0	1,169.0	729.0	321.0	357.0
Loan loss allowances	402	585.0	694.0	497.0	512.0	579.0
Net loans	96,756	140,756.0	132,698.0	132,525.0	126,466.0	117,627.0
Interbank	163	237.0	378.0	193.0	656.0	536.0
Derivatives	6,396	9,304.0	9,702.0	11,666.0	8,086.0	9,878.0
Other securities and earning assets	15,575	22,658.0	24,866.0	18,590.0	16,587.0	16,564.0
Total earning assets	118,889	172,955.0	167,644.0	162,974.0	151,795.0	144,605.0
Cash and due from banks	4,973	7,234.0	7,466.0	2,066.0	2,064.0	1,978.0
Other assets	3,148	4,580.0	4,634.0	4,376.0	5,153.0	7,390.0
Total assets	127,010	184,769.0	179,744.0	169,416.0	159,012.0	153,973.0
Liabilities						
Customer deposits	86,014	125,129.0	120,863.0	109,108.0	103,124.0	95,790.0
Interbank and other short-term funding	7,872	11,452.0	8,423.0	6,917.0	7,890.0	8,320.0
Other long-term funding	13,103	19,061.0	21,998.0	23,767.0	22,696.0	22,168.0
Trading liabilities and derivatives	5,312	7,727.0	8,252.0	11,042.0	8,095.0	9,826.0
Total funding and derivatives	112,300	163,369.0	159,536.0	150,834.0	141,805.0	136,104.0
Other liabilities	1,421	2,067.0	1,898.0	1,712.0	1,659.0	2,650.0
Preference shares and hybrid capital	1,884	2,741.0	2,741.0	2,740.0	2,739.0	2,738.0
Total equity	11,405	16,592.0	15,569.0	14,130.0	12,809.0	12,481.0
Total liabilities and equity	127,010	184,769.0	179,744.0	169,416.0	159,012.0	153,973.0
Exchange rate		USD1 = NZD1.454757	USD1 = NZD1.514463	USD1 = NZD1.593117	USD1 = NZD1.511487	USD1 = NZD1.38485

Source: Fitch Ratings, Fitch Solutions, ANZNZ

Summary Financials and Key Ratios

	30 Sep 2021	30 Sep 2020	30 Sep 2019	30 Sep 2018	30 Sep 2017
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.8	1.9	2.5	3.2	3.0
Net interest income/average earning assets	2.0	2.0	2.1	2.1	2.0
Non-interest expense/gross revenue	38.7	42.0	39.4	35.9	37.0
Net income/average equity	11.9	9.2	13.5	15.0	13.9
Asset quality					
Impaired loans ratio	0.6	0.9	0.6	0.3	0.3
Growth in gross loans	6.0	0.3	4.8	7.4	2.6
Loan loss allowances/impaired loans	75.7	59.4	68.2	159.5	162.2
Loan impairment charges/average gross loans	-0.1	0.3	0.1	0.1	0.1
Capitalisation					
Common equity Tier 1 ratio	13.4	11.7	10.8	11.1	10.7
Tangible common equity/tangible assets	7.2	6.9	6.5	6.1	6.1
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	1.5	4.0	2.2	-2.1	-2.5
Funding and liquidity					
Gross loans/customer deposits	113.0	110.4	121.9	123.1	123.4
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Customer deposits / total non-equity funding	79.0	78.5	76.6	75.6	74.3
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, ANZNZ

Shareholder Support

Institutional Support			Value
Parent IDR			A+
Total Adjustments (notches)			+0
Institutional Support:			**A+**
Support Factors (negative)	Equalised	1 Notch	2+ Notches
Parent ability to support and subsidiary ability to use support			
Parent/group regulation	✓		
Relative size		✓	
Country risks	✓		
Parent Propensity to Support			
Role in group	✓		
Potential for disposal	✓		
Implication of subsidiary default	✓		
Integration	✓		
Size of ownership stake	✓		
Support track record		✓	
Subsidiary performance and prospects	✓		
Branding	✓		
Legal commitments			✓
Cross-default clauses			✓

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

ANZNZ's IDRs, senior debt ratings and Support Rating reflect Fitch's assessment that there remains an extremely high probability of support from the Australian parent, ANZ, if required.

The IDRs are aligned with those of the parent to reflect Fitch's assessment that ANZNZ remains a key and integral part of ANZ. Other factors that support alignment with the parent ratings include our view that an ANZNZ default would constitute huge reputational risk to ANZ and damage the franchise and the strong level of integration between the two banks' management, risk and treasury teams. We believe the cooperation between the Australian and New Zealand banking regulators on the stability of their financial systems would allow the required support to flow to the subsidiary.

Our Outlook on ANZNZ reflects the Stable Outlook on ANZ's Long-Term IDR.

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	E Scale
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
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	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
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	5
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	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy	3
Employee Wellbeing	1	n.a.	n.a.	2
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	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
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	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy	2
				1

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.

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.

Unless otherwise disclosed in this section, the highest level of environmental, social and governance (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.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.