

CREDIT OPINION

22 December 2022

Update



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RATINGS

ANZ Bank New Zealand Limited

Domicile	Wellington, New Zealand
Long Term CRR	Aa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	A1
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	A1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Daniel Yu, CFA +61.2.9270.8198
VP-Sr Credit Officer
daniel.yu@moody's.com

Letitia Wong +61.2.9270.8182
Associate Analyst
letitia.wong@moody's.com

Patrick Winsbury +61.2.9270.8183
Associate Managing Director
patrick.winsbury@moody's.com

ANZ Bank New Zealand Limited

Update following affirmation of ratings

Summary

[ANZ Bank New Zealand's](#) (ANZ) A1 senior unsecured and deposit ratings includes two notches of uplift on top of its standalone baseline credit assessment (BCA) of a3. This reflects the very high probability of support from its Australian parent, the [Australia and New Zealand Banking Grp. Ltd.](#) (ANZ), rated Aa3, as well as the potential for systemic support from the [Government of New Zealand](#) (Aaa stable).

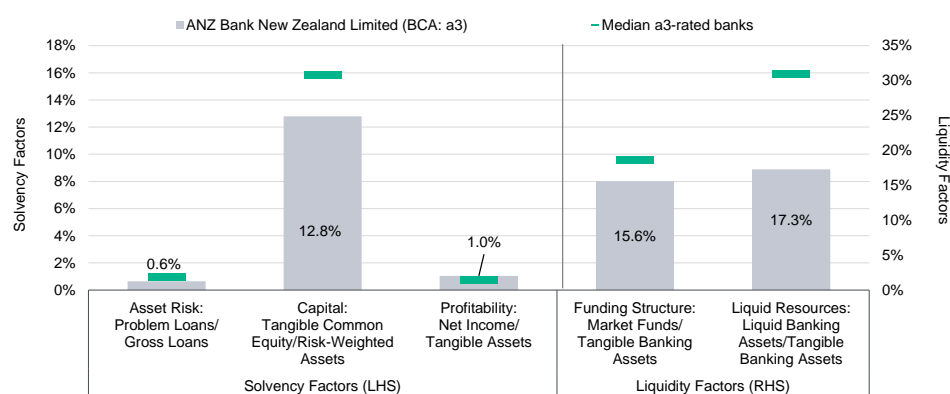
The affirmation of ANZ's a3 BCA reflects the bank's healthy asset quality, solid capital position and good profitability. Asset quality has been supported by a strong economic recovery in New Zealand following the withdrawal of pandemic restrictions, but asset quality risks are expected to heighten in 2023 as rate hikes and high inflation constrain household finances. That said, the bank's prudent underwriting standards and strong balance sheet provides a buffer against a potential rise in credit losses.

ANZ's funding and liquidity profiles remain robust and have been supported by access to the Reserve Bank of New Zealand's (RBNZ) Funding for Lending Programme, which has now expired. Access to this facility allowed ANZ to reduce wholesale issuance over the past two years, although issuance will begin to normalise as the facility drawdowns begin to mature from 2023 onwards.

Rising interest rates will provide uplift to net interest margins (NIM), but an unlikely repeat of provision releases and very low credit costs in 2021-22 combined with intense competition for mortgages are headwinds for profitability.

Exhibit 1

Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

Credit strengths

- » Strong market position as New Zealand's largest bank
- » Capital provides a strong buffer against a potential rise in credit losses
- » Rising interest rates to provide support to the bank's NIM
- » New Zealand's strong operating environment

Credit challenges

- » Rising interest rates and high inflation are key risks to asset quality
- » Sensitivity to wholesale funding market conditions

Outlook

ANZNZ's ratings have a stable outlook.

Factors that could lead to an upgrade

- » An upgrade of ANZ's BCA

Moody's could upgrade ANZNZ's BCA if its tangible common equity/risk-weighted assets ratio, rises to and sustains above 14%.

Factors that could lead to a downgrade

- » A downgrade of the parent's (ANZ) BCA

ANZNZ's BCA could face negative pressure as a result of:

- » Moody's could downgrade the bank's BCA if its asset quality deteriorates significantly, with problem loans/gross loans rising above 2%.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

ANZ Bank New Zealand Limited (Consolidated Financials) [1]

	09-22 ²	09-21 ²	09-20 ²	09-19 ²	09-18 ²	CAGR/Avg. ³
Total Assets (NZD Million)	189,627.0	178,509.0	174,523.0	161,549.0	152,257.0	5.6 ⁴
Total Assets (USD Million)	107,262.4	123,144.5	115,359.6	101,299.2	100,938.7	1.5 ⁴
Tangible Common Equity (NZD Million)	13,787.0	13,431.0	12,359.0	10,833.0	9,487.0	9.8 ⁴
Tangible Common Equity (USD Million)	7,798.6	9,265.4	8,169.3	6,792.8	6,289.4	5.5 ⁴
Problem Loans / Gross Loans (%)	0.5	0.5	0.9	0.5	0.4	0.6 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	12.8	13.8	12.1	11.2	11.5	12.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.1	5.5	9.0	6.4	5.3	6.3 ⁵
Net Interest Margin (%)	2.1	2.0	2.0	2.1	2.2	2.1 ⁵
PPI / Average RWA (%)	3.1	2.6	2.4	2.8	3.4	2.8 ⁶
Net Income / Tangible Assets (%)	1.2	1.1	0.8	1.1	1.3	1.1 ⁵
Cost / Income Ratio (%)	34.2	38.9	42.1	39.1	35.6	38.0 ⁵
Market Funds / Tangible Banking Assets (%)	15.6	15.1	16.5	18.9	18.0	16.8 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	17.3	17.0	18.6	12.5	12.1	15.5 ⁵
Gross Loans / Due to Customers (%)	113.0	112.6	110.1	121.7	121.9	115.9 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

ANZ is a New Zealand bank headquartered in the city of Auckland. The bank is a fully owned subsidiary of ANZ, making up 16% of the parent's total assets and 28% of net income at 30 September 2022.

Together with its subsidiaries and associate companies, ANZ offers a range of banking and financial services. The bank caters for all customer segments, including retail, business banking, rural, corporate and institutional customers. As of 30 September 2022, ANZ was New Zealand's largest bank by reported total assets of NZD201 billion.

ANZ was created as a result of the October 2003 acquisition by ANZ Banking Group (New Zealand) Limited of NBNZ Holdings Limited and its consolidated subsidiaries, including The National Bank of New Zealand Limited (NBNZ).

Please refer to the [Issuer Profile](#) to read about ANZ and the New Zealand [Banking Sector Outlook](#) to read about the New Zealand banking system.

Detailed credit considerations

Strong market position as New Zealand's largest bank

ANZ is the largest of New Zealand's four major banks with a market share of around 29% of total loans. Similar to its peers, ANZ has looked to support its competitive position through ongoing investment in digital and core IT systems, which has become increasingly important given the rising need for digital banking solutions.

Despite the dominance of the four major banks, competitive pressures remain high, particularly for fixed-rate mortgages which typically make up the largest part of bank portfolios. Competition for mortgages with low loan-to-value (LTV) ratios is also strong as a result of macro-prudential measures introduced by the RBNZ. Under the current settings, residential property investor loans with LTV ratios of greater than 60% are restricted to 5% of a bank's new residential property investor mortgage lending, while for owner-occupiers, loans with LTV ratios of higher than 80% cannot exceed 10% of a bank's new owner-occupier mortgage lending.

Healthy capital position and capitalization will continue to strengthen under the new capital rules

ANZ's capital position remains very strong with a CET1 ratio of 12.4% as of 30 September 2022. We expect the bank will continue to maintain high levels of capital despite the potential for increased capital consumption as dividend payouts normalise following the removal of dividend restrictions imposed by the RBNZ during the pandemic. This is because of the RBNZ's higher regulatory capital ratio requirements, which came into effect in July 2022, but grants banks a six year transition period to meet the higher targets.

Under the RBNZ's new capital rules, the CET1, Tier 1 and Total Capital requirements for New Zealand's four largest banks will rise to 13.5%, 16.0% and 18.0% of risk weighted assets (RWA) respectively. This represents a significant increase from the previous requirements of 7%, 8.5% and 10.5%.

Since 1 January 2022, the RBNZ has also required the major banks to report both IRB and standardised capital calculations and limited the RWAs calculated using the banks' IRB approach to be no less than 85% of the RWA calculated under the standardised approach. The derecognition of non qualifying AT1 and Tier 2 instruments also commenced at the start of 2022 and will be fully derecognised by 1 July 2028. From 1 October 2022, the IRB scalar increased from 1.06 to 1.20, lowering the bank's CET1 ratio by 50bps to 11.9%.

Furthermore, we believe the capital strength of New Zealand banks was already under-appreciated in the context of global bank capital as RBNZ's capital standards are more conservative than other advanced countries, leading to lower reported capital ratios. The introduction of the output floor and increase in IRB scalar have further increased the conservatism of banks' risk-weight calculations.

The conservative regulatory calculations and scheduled increase in capitalization underpin our 'capital' score adjustment in our scorecard.

Loan delinquencies to rise, albeit from a low base and mitigated by strong loan loss buffers

The outlook for asset quality has worsened as high inflation has driven a sharp tightening of monetary policy since September 2021. This has pressured borrowers through higher loan payments at a time when the cost of other goods and services is also rising. The worsening economic outlook and rate hiking cycle has already contributed to a 14% decline in median house prices from November 2021 to August 2022, although this follows a rise in median prices in the 12-months prior. As most housing loans are fixed, the full impact of rising rates will be delayed until loans are repriced at the prevailing rate, as such, we expect a more substantial rise in problem loans to emerge in the second half of fiscal 2023.

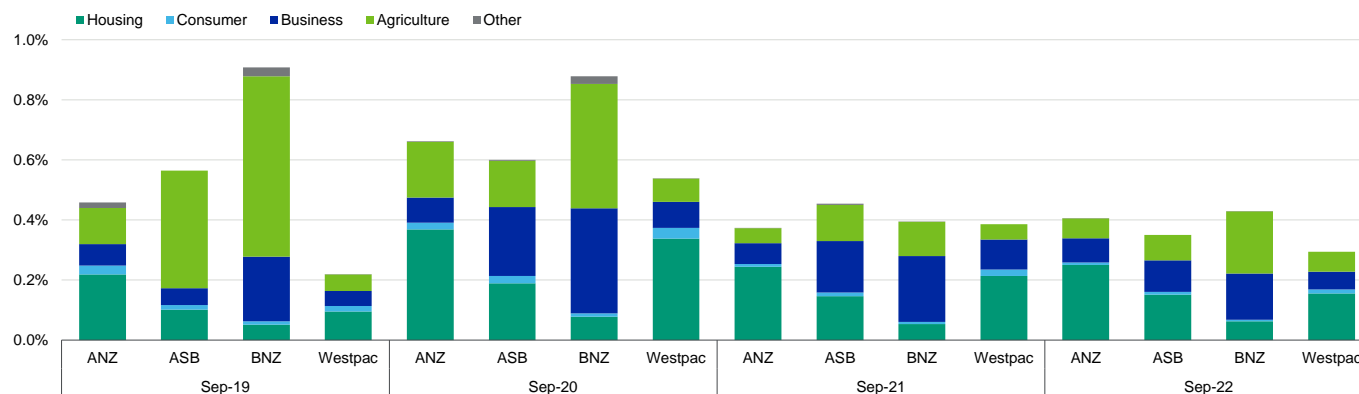
That said, we expect any weakening in asset quality to be manageable for the bank, given the very strong starting point and loss-absorbing buffers. The bank's conservative underwriting will also provide support to asset quality. For example, ANZ applies an interest rate serviceability test to borrowers which incorporates a buffer over the current loan rate. Limits on high LTV mortgage lending have also been in place since October 2013. As of 30 September 2022, ANZ's proportion of lending at LTV ratios above 80% was 5.8%, one of the lowest amongst the major banks.

Additionally, asset quality of its agribusiness portfolio, a historically more vulnerable portfolio, has improved in the past few years, with its non-performing loans ratio declining from 0.92% in September 2019 to 0.65% in September 2022, benefitting from strong commodity prices and declining leverage in the dairy sector.

These risks from the housing and rural sectors underpin our 'asset risk' adjustment in our scorecard.

Exhibit 3

Asset quality remains strong Non-performing loans % Gross loans



Source: RBNZ

Profitability will be underpinned by rising rates, although earnings remain under pressure

ANZ's profitability improved in fiscal 2022 with net profit after tax rising 18% to NZD2.3 billion. This was driven by a 4.5% growth in loans and an uptick in the bank's NIM of 12bps to 2.1%. Earnings were also supported from a lower than historical average NZD39m impairment charge, reflecting the New Zealand economy's strong recovery from the pandemic, although this follows the small impairment reversal in fiscal 2021.

Looking ahead, profitability will be boosted by interest rate rises, as the spread between deposit and lending rates continues to widen as the bank's lower yielding fixed-rate mortgages reprice at prevailing rates. That said, upside benefits will be limited by slower credit growth as lending rates increase and as consumer and business sentiment weakens due to the uncertain economic outlook, which also raises the prospect of rising credit costs.

Investment in technology will also continue to be a key focus for banks, although subsequent ongoing maintenance costs from these projects should be lower, and partially offset by a gradual benefit from efficiency gains.

Sensitivity to wholesale funding market conditions

New Zealand's major banks, including ANZ, remain exposed to wholesale funding conditions and in particular, offshore funding markets. That said, the bank maintains a good deposit franchise, with its deposit growth of 4.2% largely in line with loan growth of 4.5% during the 2022 fiscal year. The bank's loans to total deposits ratio improved to 113% in 2022 from a pre-COVID levels of 122% in 2019. However, we expect these trends to start to reverse, in line with the wind back of government stimulus and the recovery in household consumption.

After declining during the pandemic, the bank's wholesale funding issuance is likely to normalise following the expiration of the RBNZ's Funding for Lending Programme, which was established in November 2020 in response to the pandemic and provided a source of low-cost funding.

As an offset to the tightening in funding conditions, New Zealand banks benefit from access to the central bank's repo facility which allows ANZ to rapidly monetize its large mortgage book. As of 30 September 2022, the bank held NZD10,800 million self originated residential mortgage backed securities (RMBS) on its balance sheet that are readily available to be pledged with the RBNZ.

In addition to local requirements, New Zealand's four major banks are required to meet the Australian Prudential Regulation Authority's (APRA) liquidity coverage ratio and net stable funding regime, given that the banks are subsidiaries of the four major banks in Australia.

ANZ's rating is supported by New Zealand's strong operating environment

[New Zealand's Strong+ Macro Profile](#) reflects the country's high economic strength, very high institutional and government financial strength, and low susceptibility to event risk. Overall, strong institutions and policy effectiveness mitigate external and domestic vulnerabilities related to high reliance on external financing and elevated household debt. We expect real GDP to grow 4% in 2022 and 3% in 2023.

A significant pick-up in inflation as a result of ongoing supply chain issues, rising global commodity prices, and domestic supply factors has dampened economic sentiment, following the strong rebound in economic activity when pandemic restrictions were withdrawn. Tightening monetary policy is expected to counter surging inflation and moderate economic growth. Labour markets remain tight with unemployment standing at 3.3% as at June 2022, and inflated commodity prices provide a tailwind to several key export industries. House prices have begun contracting from their peak in December 2021, after growing 27% in 12 months.

Further improvement in banks' asset quality are unlikely as rising interest rates could reduce buffers built by borrowers or put some borrowers under financial pressure. However, low unemployment and low loan to value ratios on home loans should provide buffers to asset quality risk.

New Zealand banks have been lengthening the term structure of their market funding for a number of years, and this will greatly offset the risk of New Zealand banks' relatively heavy dependence on wholesale funding, especially from offshore markets.

ESG considerations

ANZ's ESG Credit Impact Score is Neutral-to-Low CIS-2

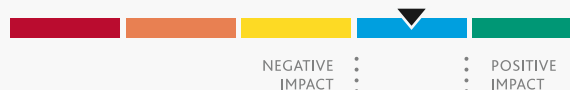
Exhibit 4

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.



Source: Moody's Investors Service

ANZ's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environmental and social risk factors on the ratings to date, and low governance risks.

Exhibit 5

ESG Issuer Profile Scores

ENVIRONMENTAL

E-3

Moderately Negative



SOCIAL

S-4

Highly Negative



GOVERNANCE

G-2

Neutral-to-Low



Source: Moody's Investors Service

Environmental

ANZ's faces moderate exposure to environmental risks, in line with peers, primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In response, ANZ is actively engaging in developing its climate risk management and reporting frameworks by incorporating environmental considerations in its strategy and lending policies, including policies related to the agricultural sector.

Social

ANZ Limited faces high industrywide social risks from customer relations (regulatory risk, litigation exposure and high compliance standards), and in the area of data security and customer privacy. The bank also faces industrywide moderate social risks related to societal trends – in particular, digitalization and the extent to which such measures could hurt earnings.

Governance

ANZ's faces low governance risks. The bank's risk management, policies and procedures are in line with industry best practices and are suitable for its risk appetite. ANZ is fully owned and effectively controlled by ANZ. Therefore, we have aligned the subsidiary's board structure, policies and procedures score with that of its parent, given the bank's strategic importance to the group, the parent's oversight of the subsidiary board and the regulated nature of the entities. Furthermore, the alignment considers that both New Zealand and Australian regulators are members of the Trans-Tasman Council on Banking Supervision, which promotes the coordination and harmonization of Australia and New Zealand bank regulations.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

ANZ's ratings incorporate a very high probability of support from its Australian parent, in light of its significance to the overall group's operations, and the close regulatory and political ties between Australia and New Zealand.

Loss Given Failure analysis

There is currently no statutory bail-in in New Zealand. As a result, we do not consider New Zealand to have an operational resolution regime (as defined in our methodology). We apply a basic loss-given-failure (LGF) approach in rating New Zealand banks' junior securities.

In determining whether New Zealand has an operational resolution regime we take into account both the current resolution framework and the New Zealand policymakers' public stance. Whilst the New Zealand authorities have developed a framework to impose losses on creditors through its Open Bank Resolution (OBR) Policy we view this framework to be a policy tool for responding to a bank failure, rather than a statutory bail-in regime. Furthermore, the RBNZ acknowledged that the OBR is not intended to be the only option in the event of a bank failure and that there may be circumstances in which a private sector solution is available.

Under the basic LGF approach we currently apply in New Zealand, ANZ's dated subordinated debt is rated A3, one notch below the bank's adjusted baseline credit assessment (BCA) of a2. Its undated subordinated debt is rated two notches below its BCA, at Baa1.

Government support considerations

The likelihood that systemic support would be extended to the bank in a systemic crisis is viewed as moderate, given the expectations that ANZ's parent will be the primary source of support. Our assessment of systemic support also reflects the importance of ANZ, like its major bank peers, in funding New Zealand's net external liabilities, and the complexity of their resolution, if required.

Counterparty Risk (CR) Assessment

ANZ Bank's CR Assessment is Aa3(cr)/Prime-1(cr)

We consider New Zealand to be a non-operational resolution (non-ORR) regime. For non-ORR countries, the starting point for the CR assessment is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support uplift as applied to deposit and senior unsecured debt ratings.

Counterparty Risk Ratings (CRRs)

ANZ Bank's CRRs are Aa3/Prime-1

We consider New Zealand to be a non-operational resolution (non-ORR) regime. For non-ORR countries, the starting point for the CRR is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support uplift as applied to deposit and senior unsecured debt ratings.

About Moody's Bank Scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 6

ANZ Bank New Zealand Limited

Macro Factors							
Weighted Macro Profile		Strong +	100%				
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.6%	aa2	↔	a1	Expected trend	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	12.8%	a3	↔	a2	Risk-weighted capitalisation	Stress capital resilience	
Profitability							
Net Income / Tangible Assets	1.0%	a3	↔	a3	Expected trend		
Combined Solvency Score		a1		a2			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	15.6%	a3	↔	a3	Extent of market funding reliance		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	17.3%	baa2	↔	baa2	Additional liquidity resources		
Combined Liquidity Score		baa1		baa1			
Financial Profile				a3			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				Aaa			
BCA Scorecard-indicated Outcome - Range				a2 - baa1			
Assigned BCA				a3			
Affiliate Support notching				1			
Adjusted BCA				a2			
Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating	
Counterparty Risk Rating	1	0	a1	1	Aa3	Aa3	
Counterparty Risk Assessment	1	0	a1 (cr)	1	Aa3(cr)		
Deposits	0	0	a2	1	A1	A1	
Senior unsecured bank debt	0	0	a2	1	A1	(P)A1	
Dated subordinated bank debt	-1	0	a3	0		A3 (hyb)	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 7

Category	Moody's Rating
ANZ BANK NEW ZEALAND LIMITED	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured -Dom Curr	A1
Subordinate	A3 (hyb)
ST Issuer Rating	P-1
Other Short Term	(P)P-1
PARENT: AUSTRALIA AND NEW ZEALAND BANKING GRP. LTD.	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa3
Senior Unsecured	Aa3
Subordinate	Baa1 (hyb)
Jr Subordinate	Baa1 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
ANZ NEW ZEALAND (INT'L) LTD, LONDON BRANCH	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Bkd Senior Unsecured	A1
Bkd Other Short Term	(P)P-1
ANZ NEW ZEALAND (INT'L) LIMITED	
Outlook	Stable
Bkd Senior Unsecured	A1
Bkd Commercial Paper	P-1
Bkd Other Short Term	(P)P-1

Source: Moody's Investors Service

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