MOODY'S INVESTORS SERVICE

CREDIT OPINION

5 September 2023

Update

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RATINGS

ANZ Bank New Zealand Limited

Domicile	Auckland, 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.

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ANZ Bank New Zealand Limited

Update to credit analysis

Summary

ANZ Bank New Zealand's (ANZNZ) A1 senior unsecured and deposit ratings include 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).

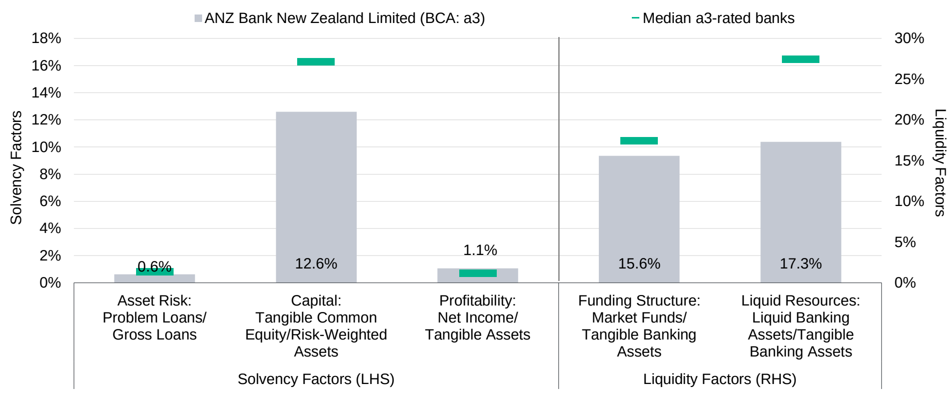
ANZNZ's a3 BCA reflects the bank's healthy asset quality, solid capital position and good profitability. That said, we expect asset quality to weaken as households face pressure from high inflation and the resultant high interest rates, although we expect any potential increase in loan losses to be manageable in the context of the bank's prudent underwriting standards and substantial loan-loss buffers.

ANZNZ's funding and liquidity profiles remain robust. Deposit growth and access to the central bank's pandemic-related funding facilities, which have now expired, reduced the bank's wholesale issuance over the past two years, although issuance will normalize as the facility drawdowns begin to mature.

Rising interest rates have provided 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' BCA if its asset quality deteriorates significantly, with problem loans/gross loans rising above 2%.

Key indicators

Exhibit 2
ANZ Bank New Zealand Limited (Consolidated Financials) [1]

	03-23[2]	09-22[2]	09-21[2]	09-20[2]	09-19[2]	CAGR/Avg.[3]
Total Assets (NZD Million)	184,246.7	189,627.0	178,509.0	174,523.0	161,549.0	3.8[4]
Total Assets (USD Million)	115,273.8	107,262.4	123,144.5	115,359.6	101,299.2	3.8[4]
Tangible Common Equity (NZD Million)	13,915.0	13,787.0	13,431.0	12,359.0	10,833.0	7.4[4]
Tangible Common Equity (USD Million)	8,705.9	7,798.6	9,265.4	8,169.3	6,792.8	7.3[4]
Problem Loans / Gross Loans (%)	0.5	0.5	0.5	0.9	0.5	0.6[5]
Tangible Common Equity / Risk Weighted Assets (%)	12.6	12.8	13.8	12.1	11.2	12.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.4	5.1	5.5	9.0	6.4	6.3[5]
Net Interest Margin (%)	2.3	2.1	2.0	2.0	2.1	2.1[5]
PPI / Average RWA (%)	2.9	3.1	2.6	2.4	2.8	2.7[6]
Net Income / Tangible Assets (%)	1.1	1.2	1.1	0.8	1.1	1.1[5]
Cost / Income Ratio (%)	34.3	34.2	38.9	42.1	39.1	37.7[5]
Market Funds / Tangible Banking Assets (%)	14.3	15.6	15.1	16.5	18.9	16.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	16.5	17.3	17.0	18.6	12.5	16.4[5]
Gross Loans / Due to Customers (%)	113.1	113.0	112.6	110.1	121.7	114.1[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

ANZNZ 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 27% of net income at 31 March 2023.

Together with its subsidiaries and associate companies, ANZNZ 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 31 March 2023, ANZNZ was New Zealand's largest bank by reported total assets of NZD189 billion.

ANZNZ 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 ANZNZ 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

ANZNZ is the largest of New Zealand's four major banks with a market share of around 27% by total loans as of March 2023. Similar to its peers, ANZNZ 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 ratios (LVR) is also strong as a result of macro-prudential measures introduced by the RBNZ. From 1 June 2023, the RBNZ eased LVR restrictions and so residential property investor loans, with LVR ratios of greater than 65%, are now restricted to 5% of a bank's new residential property investor mortgage lending (previously applied to loans with LVR ratios greater than 60%), while for owner-occupiers, loans with LVR ratios of higher than 80% cannot exceed 15% of a bank's new owner-occupier mortgage lending (previously could not exceed 10%).

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

ANZNZ's capital position remains strong as supported by stable earnings, the bank reported a CET1 ratio of 12.2% and total capital ratio of 15.2% as of 31 March 2023, well above its current 9% and 12.5% prudential minimums for CET1 and total capital respectively.

This also follows an increase in average risk-weights in early-2022 which was driven by the introduction of an output floor for IRB exposures from January 2022, part of a suite of prudential changes captured under the RBNZ's Capital Review that was finalized in 2019. The key reform is the substantial increase in prudential requirements, with CET1, Tier 1 and Total Capital requirements for New Zealand's four largest banks, including ANZNZ, rising to 13.5%, 16% and 18% of RWA respectively, incrementally out to 2028, further strengthening its capital position.

Furthermore, we believe the capital strength of New Zealand banks is under-appreciated in the context of global bank capital as RBNZ 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 from 1 October 2022 has increased the conservatism of bank's 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 strong base and mitigated by solid loan loss buffers

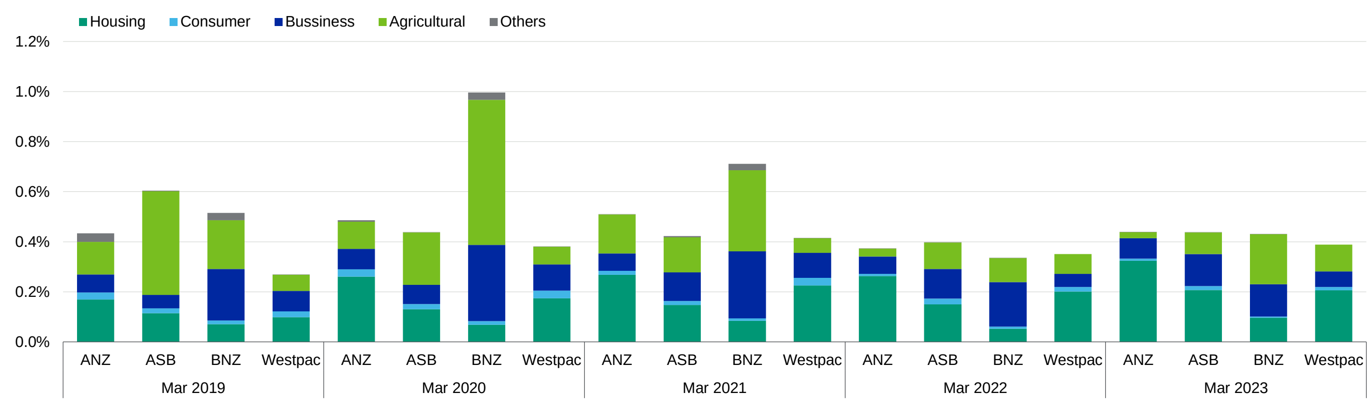
ANZNZ's good asset quality is supported by its focus on lower risk residential mortgages which have exhibited very low losses historically. The bank's non-performing loans ratio rose 4 basis points (bps) to 0.54% of gross loans in the 6 months to March 2023 as rising interest rate and high inflation constrained household finances. As 89% of housing loans are fixed as of March 2023, the full impact of rising rates will be delayed until loans are repriced at the prevailing rate, hence we expect a more substantial rise in problem loans to emerge in the second half of fiscal 2023.

That said, we believe any weakening in asset quality to be manageable for ANZNZ, given the very strong starting point and loss-absorbing buffers. The bank's conservative underwriting will also provide support to asset quality. For example, limits on high LVR mortgage lending that have been in place since October 2013 have helped mitigate risks in the housing market. As of 31 March 2023, ANZNZ's proportion of lending at LVRs above 80% was just 6.2%, the bank's portfolio average dynamic LVR was also low at 39%.

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 significantly from 1% in March 2019 to 0.2% in March 2023, benefitting from strong commodity prices and deleveraging 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

High rates boosted margins but further upside to profitability is limited

Despite reporting a higher net interest income, ANZNZ's net income to tangible assets fell 9 bps to 1.13% in 1H 2023 compared with the prior corresponding period, as the bank reported a credit impairment charge of NZD121 million, a reversal from the credit impairment benefit of NZD20 million in 1H 2022. We expect credit losses to continue to rise in the second half of fiscal 2023 given the negative pressure on asset quality.

Rising interest rates supported margin expansion with the bank's NIM rising 34 bps to 2.34% in 1H 2023 compared with a year ago. That said, further NIM benefits will be eroded by moderating credit growth, intense competition of lending, and rising funding costs as depositors shift back towards higher-yielding term deposits.

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. The bank's strong cost management has been demonstrated through its stable cost-to-income (CTI) ratio - at a time when investment remains high to comply with updates to the regulator's Outsourcing Policy which aims to ensure the bank maintains the ability to control and execute outsourced functions domestically. As such, we expect the bank will be able to maintain its current cost-to-income ratio despite the current inflationary pressures.

Sensitivity to wholesale funding market conditions

New Zealand's major banks, including ANZNZ, remain exposed to wholesale funding conditions and in particular, offshore funding markets. That said, the bank maintains a strong deposit franchise, its proportion of loans to customer deposits remained largely stable at 113% as of March 2023, an improvement from the pre-COVID level of 121% as of March 2019. However, we expect these trends to start to reverse as rising living costs and higher mortgage repayments reduce the saving capacity of households.

Following the expiration of the RBNZ's Funding for Lending Programme, which was introduced in response to the pandemic, the bank's wholesale funding issuance is likely to rise. As an offset to the tightening in funding conditions, New Zealand banks benefit from access to the central bank's repo facility which allows ANZNZ to rapidly monetize its large mortgage book. As of 31 March 2023, the bank held NZD10.6 billion 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.

ANZNZ'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 1.3% in 2023 and in 2024.

Inflation has increased to well above the central bank's target as a result of ongoing supply chain issues, rising global commodity prices, and domestic supply factors, that 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 3.4% as at March 2023, below its pre-pandemic average of approximately 4%. This has translated to some upward pressure on wages, albeit below the rate of inflation. House prices have contracted 13% in the previous 12 months, although this followed 27% growth in the 12 months to December 2021.

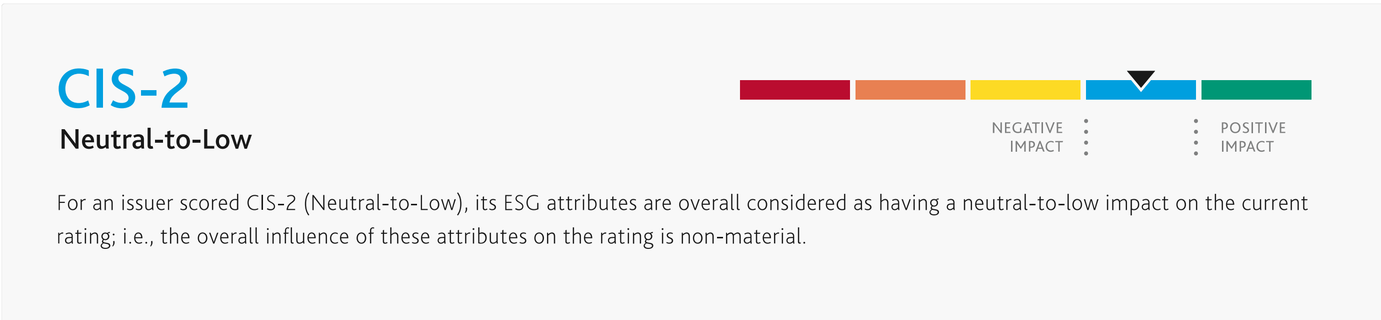
Banks' asset quality is likely to weaken as rising interest rates and high inflation place borrowers under financial strain and erode their saving buffers that strengthened during the pandemic. However, strong labour market conditions, particularly low unemployment, in addition to low loan to value ratios on home loans should provide a buffer 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' dependence on wholesale funding, especially from offshore markets.

ESG considerations

ANZ Bank New Zealand Limited's ESG Credit Impact Score is Neutral-to-Low CIS-2

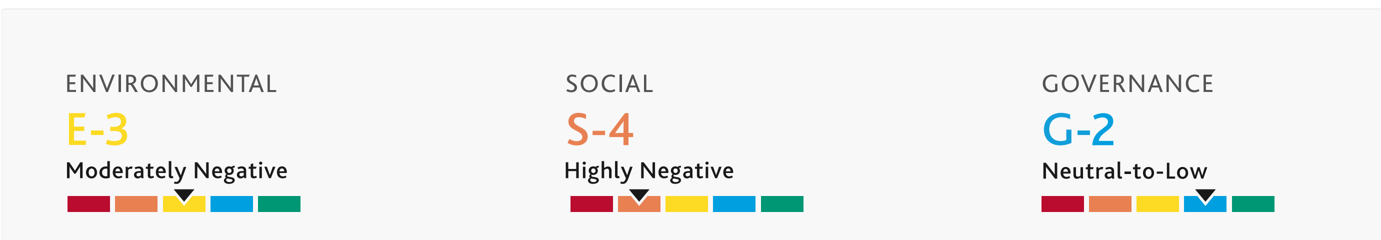
Exhibit 4
ESG Credit Impact Score



Source: Moody's Investors Service

ANZNZ'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



Source: Moody's Investors Service

Environmental

ANZNZ 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, ANZNZ 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

ANZNZ 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

ANZNZ 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. ANZNZ is fully owned and effectively controlled by The Australia and New Zealand Banking Group. 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 Moodys.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

ANZNZ'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 imposes 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, ANZNZ'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 ANZNZ's parent will be the primary source of support. Our assessment of systemic support also reflects the importance of ANZNZ, 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

ANZNZ 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)

ANZNZ 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)	12.6%	a3	↔	a2	Risk-weighted capitalisation	Stress capital resilience
Profitability						
Net Income / Tangible Assets	1.1%	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

REPORT NUMBER 1375140

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE