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ANZ Bank New Zealand Ltd.

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ANZ Bank New Zealand Ltd.

SACP	bbb+

Anchor	bbb	
Business Position	Strong	+1
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

+

Support	+4
ALAC Support	0
GRE Support	0
Group Support	+4
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating

AA-/Negative/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Dominant business position as New Zealand's largest commercial bank • Highly likely to receive timely financial support, if needed, from the parent • Sound risk management	• Material reliance on domestic and offshore wholesale funding • Exposed to risks from inflated property prices, rising private debt, and external imbalances

Outlook: Negative

The negative outlook on New Zealand-based ANZ Bank New Zealand Ltd. (ANZNZ) mirrors that on its parent, Australia and New Zealand Banking Group Ltd. (ANZ; AA-/Negative/A-1+). The negative outlook on ANZ, similar to that on other banks in its peer group in Australia, reflects our sovereign rating outlook on the Commonwealth of Australia (see "Outlooks On Australian Major Banks And Strategically Important Subs Revised To Negative On Similar Sovereign Action," published July 7, 2016), as well as a one-in-three likelihood in the next two years that we will revise our assessment of the government's supportiveness toward Australia's banking sector downward to supportive from highly supportive.

We expect to maintain our issuer credit rating on ANZNZ at the same level as that on its parent over the next two years, reflecting our opinion that ANZNZ is likely to remain a core subsidiary of the ANZ group.

Downside scenario

We expect to lower our ratings on ANZNZ if we lower our long-term rating on the bank's parent, ANZ--a one-in-three chance in the next two years.

Upside scenario

We would expect to revise the outlook on ANZNZ back to stable within the next two years if we revised the outlook on ANZ back to stable.

Rationale

We equalize our ratings on ANZNZ with those on its parent, ANZ, as we believe ANZ is highly likely to support ANZNZ under any foreseeable circumstances. We believe ANZNZ forms an integral part of ANZ's groupwide strategy focused primarily on retail, corporate, and business banking in Australia and New Zealand. Supporting our view is the significant size of ANZNZ's operations relative to ANZ, with the New Zealand operations accounting for close to one-fifth of consolidated group earnings and capital. We expect to maintain our issuer credit rating on ANZNZ at the same level as that on its parent.

We assess the stand-alone credit profile (SACP) of ANZNZ as 'bbb+', taking into account the bank's strong market position in New Zealand as the country's largest provider of retail, business, and agribusiness lending. This position benefits business stability, which the bank's generally upward-trending business and operating revenue growth show, with limited need to chase returns up the risk curve. We see the bank maintaining its dominant market position, despite forgoing some market share more recently as it transitions off funding support from its parent, and, like its peers, contends with increasing internal return requirements across some business lines, and margin pressure on both sides of the balance sheet. We also see lending growth picking up for the bank through to fiscal 2019 (ending September 2019) and expect to see a levelling off in margins by the end of calendar 2017--consistent with our expectations for the system--which should see a resumption in operating revenue growth for the bank in fiscal 2018.

ANZNZ's SACP also reflects the bank's sound capitalization and very low credit losses, with the latter benefitting from a prolonged period of very low interest rates and the bank's broad-base of lending activities throughout New Zealand. We expect credit losses to remain unchanged and very low through to fiscal 2019, with the heightened risk from the New Zealand dairy sector in recent years dissipating, at least in the short term, in our opinion. We also expect the performance of the banks other main exposures--housing and commercial--to remain strong while economic activity in New Zealand remains healthy. In any event, we expect the bank's strong earnings and total portfoliowide credit quality would provide sufficient capacity to absorb an unexpected increase in credit losses without materially impacting its capitalization.

Similar to the other three major banks in New Zealand, ANZNZ's reliance on wholesale funding, both domestic and offshore, somewhat tempers its dominant position in domestic funding markets, though we consider the bank to have a sufficient liquidity cover for short-term wholesale liabilities. ANZNZ's current term debt does not display any significant concentrations or liquidity needs, in our opinion, with an increasing weighted-average maturity and staggered maturity profile in recent years. As such, we do not currently foresee any unusual or large liquidity needs in the next two years.

Anchor: Rising economic imbalances elevate risks facing New Zealand banking system

ANZNZ's lending activities remain focused within New Zealand. The starting point for our ratings on ANZNZ--similar to our ratings on all other banks operating in New Zealand--is 'bbb', reflecting our assessment of New Zealand's macro environment. We view New Zealand as having a reasonably wealthy, resilient, market-oriented economy with flexible labor and product markets. We consider banking regulation and supervision in New Zealand to be in line with most international peers. The governance and transparency in the New Zealand banking industry contribute to strong market discipline in our view. The risk of a significant change in the competitive landscape is minimized by the oligopolistic nature of the New Zealand banking system and restrained risk appetite of banks.

That said, we believe the banking system's material dependence on net external borrowings and limited support from core customer deposits represent a weakness to the system. We also consider that economic imbalances caused by rising house prices and amplified by persistent current account deficits and the reliance on net external borrowings elevate the risks of a sharp correction in property prices and consequently a rise in credit losses. In our view, domestic credit to the private sector in New Zealand remains high, although offset by high income levels and conservative lending and underwriting standards.

Table 1

ANZ Bank New Zealand Ltd. Key Figures

		--Year-ended Sept. 30--			
(Mil. NZ$)	**2017***	**2016**	**2015**	**2014**	**2013**
Adjusted assets	151,783	156,646	143,332	124,801	116,425
Customer loans (gross)	115,558	115,245	106,968	96,965	91,663
Adjusted common equity	8,649	8,924	8,671	8,034	7,667
Operating revenues	1,949	4,162	4,314	4,044	3,636
Noninterest expenses	730	1,902	1,741	1,675	1,655
Core earnings	842	1,540	1,818	1,746	1,426

*Data as of March 31. NZ$--New Zealand dollar.

Business position: Strong franchise as New Zealand's largest commercial bank across retail, business, and agribusiness banking

We believe the strength and stability of ANZNZ's business base primarily stems from the bank's market position in

New Zealand as the largest commercial bank across retail, business, and agribusiness banking, accounting for close to 30% of banking system assets (including a similar market share across the formentioned business lines), or around 1.5x its major bank peers. The dominant market share also extends to funding, with the bank accounting for more than 30% of household deposits. Similar to peers, we believe ANZNZ's market position provides it with a high degree of pricing power and control over its customer relationships, across a broad-based offering incorporating retail, business, and agribusiness banking, as well as wealth management and insurance, without the need to rely excessively on pricing or higher-risk business lines to generate a high proportion of revenues.

We believe the bank's pricing power is marginally stronger than peers on both lending and funding. The bank's net interest margin (net interest income to operating revenues) is generally 10 basis points (bps) to 20bps above the other major banks. We see the bank maintaining its dominant market position, in terms of both pricing and market share, despite a backdrop of strong competitive pressures, which are unlikely to dissipate as credit growth within the system slows.

We assess ANZNZ's business position to be broadly consistent with that of immediate major bank peers-- Bank of New Zealand (BNZ; AA-/Negative/A-1+), Westpac New Zealand Ltd. (WNZL; AA-/Negative/A-1+), and ASB Bank Ltd. (ASB; AA-/Negative/A-1+)--as we believe that indicators of business stability, including business and operating revenue mix, are broadly similar and unlikely to change materially amongst the four banks over the next two years. ANZNZ derives close to 80% of its revenues from net interest income, although slightly lower than peers, owing to the additional earnings it generates from wealth management, including insurance. Overall, however, we see the composition of ANZNZ's earnings exhibiting a high degree of repeatability, with limited reliance on market-sensitive sources, for which we see little change over the next two years.

We also see little change in the bank's strategy of increasing business inflows from the growth corridors stemming from strong migration and subsequent infrastructure needs in and around Auckland. Qualitatively, we consider ANZNZ's growth and risk appetite to be broadly in line with those of its peers. In light of the reduced funding from its parent--following regulatory restrictions on intragroup support for all New Zealand subsidiaries from their respective Australian parents--and the general increase in the "core funding" task for New Zealand's major banks, ANZNZ has sought to build up its customer deposit base in recent years, at close to 80% of total funding (compared with peers who remain largely anchored at closer to 70%).The same headwinds have also seen a shift more recently toward a higher weighting in residential mortgage lending (albeit in part to satisfy its rundown in intergroup funding). This has been largely matched by a corresponding fall in agriculture (in particular), amid strong competition from some peers--particularly those traditionally associated with retail banking.

Table 2

ANZ Bank New Zealand Ltd. Business Position

		--Year-ended Sept. 30--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Total revenues from business line (currency in millions)	1,949	4,162	4,314	4,044	3,636
Commercial banking/total revenues from business line	23.4	21.7	21.3	35.9	39.2
Retail banking/total revenues from business line	60.4	50.8	39.0	23.1	31.8
Commercial & retail banking/total revenues from business line	83.8	72.5	60.4	59.0	71.1

Table 2

ANZ Bank New Zealand Ltd. Business Position (cont.)					
		--Year-ended Sept. 30--			
(%)	2017*	2016	2015	2014	2013
Corporate finance/total revenues from business line	N.A.	11.6	15.4	15.4	16.7
Insurance activities/total revenues from business line	N.A.	5.5	5.1	6.8	N.A.
Asset management/total revenues from business line	N.A.	0.0	7.5	9.3	6.4
Other revenues/total revenues from business line	16.2	10.5	11.6	9.4	5.8
Investment banking/total revenues from business line	N.A.	11.6	15.4	15.4	16.7
Return on equity	13.5	12.5	15.1	15.2	12.4

*Data as of March 31. N.A.--Not available.

Capital and earnings: Adequate risk-adjusted capitalization, underpinned by strong earnings and low credit losses

We forecast the risk-adjusted capital (RAC) ratio for ANZNZ to remain adequate and largely unchanged at between 7.75%-8.25% in the next 18-24 months (from 8.3% as of March 31, 2017). Our forecast range for ANZNZ's RAC ratio remains around the middle-point of major bank peers. There is a 20bps-30bps upside to our forecast if, upon sale of UDC Finance Ltd. (UDC; BBB/Watch Neg/A-2), ANZNZ retained the sale proceeds rather than upstreaming to its parent.

We expect ANZNZ's lending growth to improve toward that of our expectations for both its peers and system at closer to 5%-7% annually (through to fiscal 2019), although we expect the bank will remain toward the lower end of peers. ANZNZ has reported below-system growth in the year to date (June 2017)--4.0% annualized, after adjusting for the pending sale of UDC--primarily as a result of the bank's transition away from parent funding (ANZNZ's use of intragroup funding was higher than peers when regulatory restrictions were introduced). While we expect this headwind to remain within our forecast period, we expect its effect to dissipate in light of the bank's current progress.

Consistent with our view for most peers, we expect ANZNZ to reverse the modest decline in earnings in 2016 through the remainder of 2017 and into 2018. We forecast the decline in margins in recent years to level off this year, which, against the backdrop of a forecast increase in lending growth, should be supportive of an increase in earnings. We expect margin pressure for the banking sector in New Zealand to persist on both lending (strong competition amongst slowing credit growth at the system level) and funding (although we expect the headwind of higher funding costs to dissipate), although we believe the recent loan repricing should see a floor in margins emerge by the end of calendar 2017. Strong competition is also likely to prove a headwind to further growth in fees and commissions, although we see this trend as prevailing across the system. We also expect credit losses (new loan loss provisions) for ANZNZ to remain very low and unchanged at between 5bps-15bps, while we similarly forecast the recent improvement in the bank's cost to income to continue (at around 40%).

We expect ANZNZ's earnings to adequately cover new loan loss provisions (credit losses) as the current credit cycle shows some sign of maturing--although we expect credit losses to remain very low in the next two years. We believe the bank has considerable headroom to absorb an increase in credit losses from our base expectation without impacting our assessment of the bank's capitalization. However, we would expect the bank to adjust its dividend payout if credit losses surged.

Table 3

ANZ Bank New Zealand Ltd. Capital And Earnings

		--Year-ended Sept. 30--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Tier 1 capital ratio	13.5	13.2	12.7	11.1	10.8
S&P RAC ratio before diversification	8.3	8.2	8.7	N.A.	N.A.
S&P RAC ratio after diversification	7.6	8.3	8.5	N.A.	N.A.
Adjusted common equity/total adjusted capital	75.9	76.5	82.8	96.4	96.2
Double leverage	N/A	N/A	N/A	42.8	44.5
Net interest income/operating revenues	77.6	72.1	66.6	67.8	71.9
Fee income/operating revenues	16.9	22.0	19.3	18.9	20.5
Market-sensitive income/operating revenues	4.5	(0.7)	7.6	6.1	3.5
Noninterest expenses/operating revenues	37.5	45.7	40.4	41.4	45.5
Preprovision operating income/average assets	1.5	1.5	1.9	1.9	1.6
Core earnings/average managed assets	1.1	1.0	1.3	1.4	1.2

*Data as of March 31. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Risk Position: Diversified portfolio and very low credit losses

ANZNZ's risks are well diversified across the bank's retail, commercial, corporate and agribusiness banking activities, in our opinion, and we expect little change of significance in the bank's focus on the formentioned sectors over the next two years. We believe ANZNZ's banking activities are relatively simple and exposures to higher-risk activities are low, while single-name concentrations don't appear too significant. Exposures by industry and sector are broadly proportional to that of the New Zealand economy and banking sector, which translates into concentration in residential mortgage and agriculture sectors--at around 60% and 15% of total lending, respectively, with the bank's exposure to business and commercial lending at more than 20% (of which commercial property accounts for around 35%). Compared with major bank peers, ANZNZ's lending mix places it squarely in the midpoint of peer comparisons; as such, we consider the risk characteristics of the bank's loan book to be broadly similar to those of its peers.

ANZNZ's residential mortgage portfolio, similar to those of peers, broadly mirrors the country's population distribution, with Auckland at 45%. Amid favorable tailwinds in many parts of the New Zealand economy, particularly in Auckland, and very low interest rates, our base expectation is that despite increasing risks stemming from inflated property prices and rising household debt, credit losses (new loan loss provisions) are likely to remain very low over the next two years (see "New Zealand 2017 Banking Outlook: A Maturing Credit Cycle," published on Feb. 20, 2017). We also believe the aforementioned tailwinds, particularly a sustained and material net migration increase and associated infrastructure build, will likely support the performance of the bank's commercial property portfolio over the next two years.

Against the backdrop of a reasonably benign outlook for the operating environment in New Zealand (employment conditions remain very tight, despite limited wage inflation), we see little change in the current performance of the bank's mortgage portfolio. Close to 75% of loans are owner-occupied, with a similar amount on principal and interest terms. On a similar note, we currently see a limited risk of higher mortgage reset rates contributing to a higher level of arrears, despite close to 80% of mortgages on fixed terms. We estimate the buffer between reset rates and minimum serviceability requirements that ANZNZ adopts at between 100bps and 200bps.

ANZNZ's exposure to the dairy sector is significant, in line with the rest of New Zealand's banking sector, accounting for just over 10% of its total lending. We believe short-term downside risks have peaked following a strengthening in the payout figure from Fonterra Co-operative Group Ltd. (Fonterra; A-/Stable/A-2) in both the current season (NZ$6.55 per kilogram of milk solids; kgMS) and the upcoming 2018 season (forecast at between NZ$7.20 to NZ$7.30 per kgMS). This compares with a current estimated breakeven price of NZ$5.00 (per kgMS) (although this may begin to trend higher as the higher payout figure draws out increased production). We understand farmers in general remain focused on balance sheet repair, which has probably contributed to the recent release of collective provisions (and which should eventually be followed up by a modest release of individual provisions). This is despite the strong increase in dairy debt in recent years. Nevertheless, we believe New Zealand's major banks, including ANZNZ, will retain the pragmatic approach that has thus far contributed to the absence of a widespread and significant deterioration in the performance of the dairy sector.

Our base expectation is for new loan loss provisions (credit losses) to remain very low and unchanged at between 5bps and 15bps through to fiscal 2019, from around 6bps as of June 2017. These figures remain well-below our normalized ("through the cycle") loss expectations of closer to 50bps. They are also down from our prior expectations, primarily as a result of a stronger-than-forecast improvement in the bank's dairy portfolio. We forecast portfoliowide nonperforming loans to also remain largely unchanged at between 50bps-60bps over the next two years (from around 50bps in June 2017). We see the gradual maturing in the credit cycle as the primary driver behind our outlook, with both residential mortgages (23bps, unchanged from fiscal 2016) and nonretail (estimated at around 85bps, largely unchanged from fiscal 2016) appearing to have bottomed, in our view (although further strengthening in the dairy portfolio is unlikely to be currently reflected in the formentioned arrears).

Table 4

ANZ Bank New Zealand Ltd. Risk Position					
		--Year-ended Sept. 30--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Growth in customer loans	0.5	7.7	10.3	5.8	4.5
Total managed assets/adjusted common equity (x)	18.0	18.0	17.0	16.0	15.7
New loan loss provisions/average customer loans	0.1	0.1	0.1	(0.0)	0.1
Net charge-offs/average customer loans	0.1	0.1	0.1	0.2	0.3
Gross nonperforming assets/customer loans + other real estate owned	0.6	0.5	0.5	0.8	1.2
Loan loss reserves/gross nonperforming assets	95.5	111.9	105.5	84.9	74.5

*Data as of March 31. N.M.--Not meaningful.

Funding and liquidity: Well-managed funding and liquidity notwithstanding material dependence on wholesale funding

We believe ANZNZ exhibits a funding profile similar to that of the industry average in New Zealand, despite the bank's material reliance on wholesale funding, including offshore wholesale funding. We note that New Zealand systemwide funding risks, which we view as high on a global comparison and a consistent theme across each of New Zealand's four major banks, are to a large extent taken into account into our banking industry risk assessment.

We note that ANZNZ's loans to customer deposits remain high at around 120%, although it remains a relative strength compared with its major bank peers at closer to 140%, owing to the buildup in customer deposits in recent years. Our stable funding ratio for ANZNZ--which measures a bank's available funding sources relative to its funding needs over a one-year period--also compares favorably at close to 102% (relative to peers at closer to 95%). On this basis, we believe the bank will be well-positioned to meet the Australian Prudential Regulation Authority's (APRA) Net Stable Funding Ratio on Jan. 1, 2018, which is set to indirectly capture the New Zealand operations of Australia's major banks.

ANZNZ's nondeposit funding sources are diverse by geography, with no material concentrations amongst main funding regions--primarily the U.S., Europe, and New Zealand--while the size and tenor of term debt continues to increase. We estimate the bank's weighted average maturity of its term debt at around 3.4 years--at the top-end of peers who generally average closer to 3.0 years--and expect the figure to gradually increase in light of an annual average issuance tenor of closer to 5.0 years over the last two years.

We expect some further changes to the bank's funding mix--particularly with respect to the composition of its nondeposit funding, although we believe the structure will remain broadly unchanged (including the bank's reliance on short-term wholesale, which we expect to remain comfortably below 10% of funding needs). Most notably, ANZNZ continues to replace intergroup funding from its parent, although the transition period (initially five years at an average of NZ$1.6 billion per annum), as well as a recent slowdown in lending growth, should see little disruption to the bank's overall funding task.

We believe ANZNZ has sufficient liquidity sources to manage a short-term period (six months) of general market stress without a significant dependence on central bank support. With an estimated short-term wholesale coverage ratio--which covers maturing wholesale debt over a 12-month period--at close to 2.0x at March 31, 2017, we believe ANZNZ's on-balance sheet liquidity should cover short-term uses during a shorter six-month period of market stress. ANZNZ's liquidity cover is toward the top-end of peer comparisons. We expect the level of liquidity to trend lower through the cycle and revert closer to 1.0x. We also factor into our qualitative assessment unencumbered residential mortgage-backed securities held by ANZNZ that it may sell to the Reserve Bank of New Zealand under agreements to repurchase so as to access NZ$7.7 billion in additional liquidity.

ANZNZ's current term debt maturity profile does not display any significant concentrations or liquidity needs, in our opinion. As such, we do not currently foresee any unusual or large liquidity needs in the next 12-24 months.

Table 5

ANZ Bank New Zealand Ltd. Funding And Liquidity

		--Year-ended Sept. 30--			
(%)	**2017***	**2016**	**2015**	**2014**	**2013**
Core deposits/funding base	78.3	73.8	73.7	71.5	71.3
Customer loans (net)/customer deposits	119.4	127.7	127.9	128.8	131.5
Long term funding ratio	95.2	89.7	89.4	87.4	88.2
Stable funding ratio	101.4	96.4	95.9	95.8	95.1
Short-term wholesale funding/funding base	5.3	11.3	11.6	13.7	12.8
Broad liquid assets/short-term wholesale funding (x)	1.9	0.9	1.0	0.8	0.9

Table 5

ANZ Bank New Zealand Ltd. Funding And Liquidity (cont.)					
		--Year-ended Sept. 30--			
(%)	2017*	2016	2015	2014	2013
Net broad liquid assets/short-term customer deposits	5.8	(1.0)	(0.7)	(2.9)	(1.9)
Short-term wholesale funding/total wholesale funding	22.2	39.7	41.7	47.5	44.1

*Data as of March 31.

Support: Expected timely financial support from the parent enhances creditworthiness

Our long-term issuer credit rating on ANZNZ factors in four notches of uplift above the bank's SACP of 'bbb+'. This reflects our view that ANZ is likely to provide timely financial support to ANZNZ under any foreseeable circumstances.

Similar to major bank peers, we equalize our ratings on ANZNZ with those of its parent, ANZ. We believe ANZNZ forms an integral part of the groupwide strategy focused primarily on retail, corporate, and business banking in Australia and New Zealand. ANZNZ is a wholly owned and considerable subsidiary of the ANZ group, accounting for close to one-fifth of the group's revenue and capital. We thus believe ANZ is highly unlikely to divest ANZNZ, particularly given the subsidiary's success over a sustained period as New Zealand's largest commercial bank, and notwithstanding the resulting concentration in New Zealand relative to peers. In addition to ANZNZ's size and success, along with ANZ's long track record of ownership of the subsidiary, we believe ANZNZ is closely linked to the group's reputation, name, brand, and risk management. Consequently, we believe the group has strong incentives to support the New Zealand subsidiary. In our assessment of financial support for ANZNZ from its parent, if needed, we factor in our expectation that the Australian government's support for ANZ would extend to ANZNZ. This is because we believe financial distress at ANZNZ could harm ANZ's perceived creditworthiness in the funding markets.

Prudential standards issued by APRA, ANZ's home regulator, place restrictions on the nature and level of support from ANZ to other members of the group, including ANZNZ (these restrictions also apply to the other three major banks). Nevertheless, we currently see limited prospects that support for ANZNZ from the broader ANZ group during any foreseeable circumstances would weaken over the next two years.

Finally, in our view, it is uncertain whether the New Zealand government would provide timely financial support to the country's private-sector banks, including ANZNZ, if needed. The country's bank resolution framework allows the senior creditors of a bank to absorb losses to help the bank continue operations if the bank were to experience financial distress.

Additional rating factors:

We anchor our ratings on ANZNZ's hybrid and nondeferrable subordinated debt instruments off the ANZ group's unsupported group credit profile (GCP) of 'a-'. This is because we believe the ANZ group would support all of ANZNZ's obligations, including those on its hybrid and subordinated debt instruments, as if they were ANZ's own obligations. However, we believe that Australia and New Zealand's legal and regulatory frameworks could allow authorities to instigate restructuring of a failing bank to the detriment of nondeferrable subordinated debt. Consequently, we expect that support from the Australian government is unlikely to extend to any such instruments issued by ANZ and its subsidiaries. Any changes in the ANZ group's unsupported GCP thus would be similarly reflected in our ratings on these instruments.

The issue ratings on ANZNZ's Tier 2 capital instruments are 'BBB', or two-notches below the ANZ group's unsupported GCP, reflecting one notch for subordination to the senior debt in liquidation and one notch for the risk of partial or untimely payment.

The issue ratings on ANZNZ's Basel III Tier 1 capital instruments are 'BB+', or four notches below the ANZ group SACP, reflecting one notch for subordination in liquidation, two notches for the risk of partial or untimely payment, and one notch for a contingency clause that requires mandatory conversion of such instruments into common equity or a write-down of principal on the activation of a nonviability trigger.

Table 6

ANZ Bank New Zealand Ltd. Risk-Adjusted Capital Framework Data					
(Mil. NZ$)	**EAD (1)**	**Basel III RWA (2)**	**Average Basel III RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Government and central banks	13,088	164	1	376	3
Institutions and CCPs	14,490	3,588	25	4,657	32
Corporate	60,798	41,363	68	67,687	111
Retail	87,011	25,849	30	43,204	50
Of which mortgage	76,197	17,247	23	35,706	47
Securitization (3)	0	0	0	0	0
Other assets (4)	1,560	1,650	106	2,396	154
Of which deferred tax assets	0	--	--	0	0
Of which amount of over (-) or under (+) capitalization of insurance subsidiaries	0	--	--	0	0
Total credit risk	176,947	73,857	41	118,319	67
Total credit valuation adjustment	--	0	--	3,537	--
Equity in the banking book	7	25	357	61	875
Trading book market risk	--	5,225	--	7,838	--
Total market risk	--	5,216	--	7,899	--
Total operational risk	--	5,874	--	7,956	--
RWA before diversification	--	85,038	--	137,710	100
Total Diversification/Concentration Adjustments	--	--	--	11,811	9
RWA after diversification	--	84,947	--	149,521	109
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital Ratio before adjustments		11,467	13.5	11,390	8.3
Capital Ratio after adjustments (5)		11,467	13.5	11,390	7.6

Footnotes: (1) EAD: Exposure At Default (2) RWA: Risk-Weighted Assets (3) Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework (4) Other assets inlcudes Deferred Tax Assets (DTAs) not deducted from ACE (5) For Tier 1 ratio, adjustments are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons)

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016

- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
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- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Ratings On 23 Australian Financial Institutions Lowered On Buildup Of Economic Imbalances, May 22, 2017
- UDC Finance 'BBB/A-2' Ratings Remain On CreditWatch Negative, March 21, 2017
- New Zealand 2017 Banking Outlook: A Maturing Credit Cycle, Feb. 20, 2017
- Banking Industry Country Risk Assessment: New Zealand, Aug. 22, 2016

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	**5**	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	**bbb**	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of September 27, 2017)	
ANZ Bank New Zealand Ltd.	
Counterparty Credit Rating	AA-/Negative/A-1+
Certificate Of Deposit	
Local Currency	AA-/A-1+
Junior Subordinated	BBB
Preferred Stock	BB+
Senior Unsecured	A-1+
Senior Unsecured	AA-
Counterparty Credit Ratings History	
07-Jul-2016	AA-/Negative/A-1+
01-Dec-2011	AA-/Stable/A-1+
21-Feb-2007	AA/Stable/A-1+
Sovereign Rating	
New Zealand	
Foreign Currency	AA/Stable/A-1+
Local Currency	AA+/Stable/A-1+
Related Entities	
ANZ Bank (Taiwan) Ltd.	
Issuer Credit Rating	A+/Negative/A-1
Taiwan National Scale	twAAA/Negative/twA-1+
Australia and New Zealand Bank (China) Co. Ltd.	
Issuer Credit Rating	A+/Negative/A-1
Australia and New Zealand Banking Group Ltd.	
Issuer Credit Rating	AA-/Negative/A-1+
Certificate Of Deposit	
Foreign Currency	AA-/A-1+
Commercial Paper	
Foreign Currency	A-1+
Junior Subordinated	BB+
Senior Unsecured	A-1+
Senior Unsecured	AA-
Subordinated	BBB
Subordinated	BBB+
OnePath Life Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
OnePath Life (NZ) Ltd.	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--

Ratings Detail (As Of September 27, 2017) (cont.)	
UDC Finance Ltd.	
Issuer Credit Rating	BBB/Watch Neg/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.