FitchRatings

Banks
Universal Commercial Banks
New Zealand

ANZ Bank New Zealand Limited

Update

Key Rating Drivers

Support Prospects: ANZ Bank New Zealand Limited's (ANZNZ) Shareholder Support Rating (SSR), Issuer Default Ratings (IDRs) and senior unsecured debt rating reflect Fitch Ratings' assessment of a very high likelihood of support from the bank's Australia-based owner, Australia and New Zealand Banking Group Limited (ANZ, A+/Stable/a+), if required. We align ANZNZ's Long- and Short-Term IDRs and Outlook with those assigned to ANZ as a result.

Integral Subsidiary: ANZNZ's SSR reflects that it is a key and integral part of ANZ, offering products and services in the group's core market, New Zealand. A sale is very hard to conceive and would noticeably alter the overall shape of ANZ, while any default of ANZNZ would constitute a huge reputational risk for ANZ, damaging its franchise. Fitch expects the Australian and New Zealand banking regulators to allow support to flow as required.

Economic Growth to Slow: Fitch expects slower economic growth in New Zealand in 2024. The higher cost of living is likely to put pressure on borrowers, although we expect the unemployment rate to remain resilient, which should support borrower repayment capacity. This underpins the stable outlook on our operating environment score of 'a', which is below the 'aa' category score implied by Fitch's criteria to reflect the high household debt in New Zealand.

Market Position Underpins VR: ANZNZ's Viability Rating (VR), which is in line with its implied VR, is supported by its large domestic market position. This allows for a simple business model, which underpins the financial profile. The 'a+' business profile score is above the implied 'bbb' category score to capture the strong market position. ANZNZ is New Zealand's largest bank, with market share of more than 25% for most products.

Robust Risk Management: Credit risk, stemming primarily from the loan portfolio, remains ANZNZ's main risk and we believe this is managed well. Market and non-financial risks also appear well managed, benefitting from both regulatory oversight and access to expertise and policies from the parent.

Manageable Asset-Quality Deterioration: We expect ANZNZ's stage 3 loan/gross loan ratio to increase to about 1% by the end of the financial year to 30 September 2024 (FYE24), from 0.8% at FYE23, as high inflation and rapid interest-rate hikes put pressure on some borrowers' repayment capability.

Profitability to Weaken: We expect a modest decline in net interest margin and higher impairment charges to result in a fall in the operating profit/risk-weighted asset (RWA) ratio. We expect the operating profit/RWA ratio to be about 2.4% in FY24 and 2.5% in FY25.

Regulatory Capital Ratios to Rise: ANZNZ's common equity Tier 1 (CET1) ratio is likely to rise to around 13% in FY25 (FYE23: 12.5%) as the bank works towards the final implementation date for the new capital framework in mid-2028. The framework is more conservative than global rules, and we take this into consideration when assigning the factor score at 'a', above the implied 'bbb' category.

Stable Funding: We expect deposit growth to be broadly in line with loan growth in FY24 and FY25, resulting in a largely stable loan/customer deposit ratio for ANZNZ. The ratio was 113% at FYE23. Liquidity is well managed, with the bank reporting regulatory liquidity ratios well in excess of minimum requirements.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Local Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	a
Shareholder Support Rating	a+
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	Stable
Sovereign Long-Term Local-Currency IDR	Stable

Applicable Criteria

Bank Rating Criteria (September 2023)

Related Research

Australia and New Zealand Banking Sector Outlooks Deteriorating (June 2023)

DM100 Banks Tracker – End-2022 (May 2023)

ANZ Bank New Zealand Limited (April 2023)

Fitch Affirms Australia and New Zealand Banking Group at 'A+'; Outlook Stable (March 2023)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

IDRs and SSR

Any downgrade of ANZ's IDRs is likely to result in a downgrade of the SSR and IDRs assigned to ANZNZ; see Fitch Affirms Australia and New Zealand Banking Group at 'A+'; Outlook Stable, published on 21 March 2023, for the key drivers and sensitivities of ANZ's ratings.

The IDRs and the SSR may also be downgraded should we change our view on ANZNZ's importance to ANZ. This could be reflected in the partial or full sale of ANZNZ or a decision to significantly scale back operations within New Zealand. Weakening co-operation between authorities in Australia and New Zealand may indicate a reduced ability for ANZ to provide support in a timely fashion and put pressure on the ratings. However, neither of these scenarios is likely in our view.

VR

The VR could be downgraded if deterioration in the economic environment results in a combination of:

- The four-year average of the stage 3 loan/gross loan ratio increasing above 1.5% (FYE20-FYE23: 0.7%) for a sustained period;
- The four-year average of the operating profit/RWA ratio falling consistently below 2.0% (FYE20-FYE23: 2.6%);
- The CET1 capital ratio declining below 10.5% without a credible plan to return to above this level (FYE23: 12.5%).

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

IDRs and SSR

An upgrade or revision of the Outlook on ANZ's IDRs would be reflected in ANZNZ's SSR and IDRs or the Outlook, as long as there is no change to ANZ's propensity to support ANZNZ.

VR

An upgrade of the operating environment score for New Zealand banks to 'a+', possibly to reflect reduced risks on household leverage within the system, would most likely be a prerequisite for an upgrade of ANZNZ's VR. An upgrade of the VR would also require that ANZNZ maintain its strong business profile in combination with a sustained improvement in its asset quality, capital and funding metrics.

Other Debt and Issuer Ratings

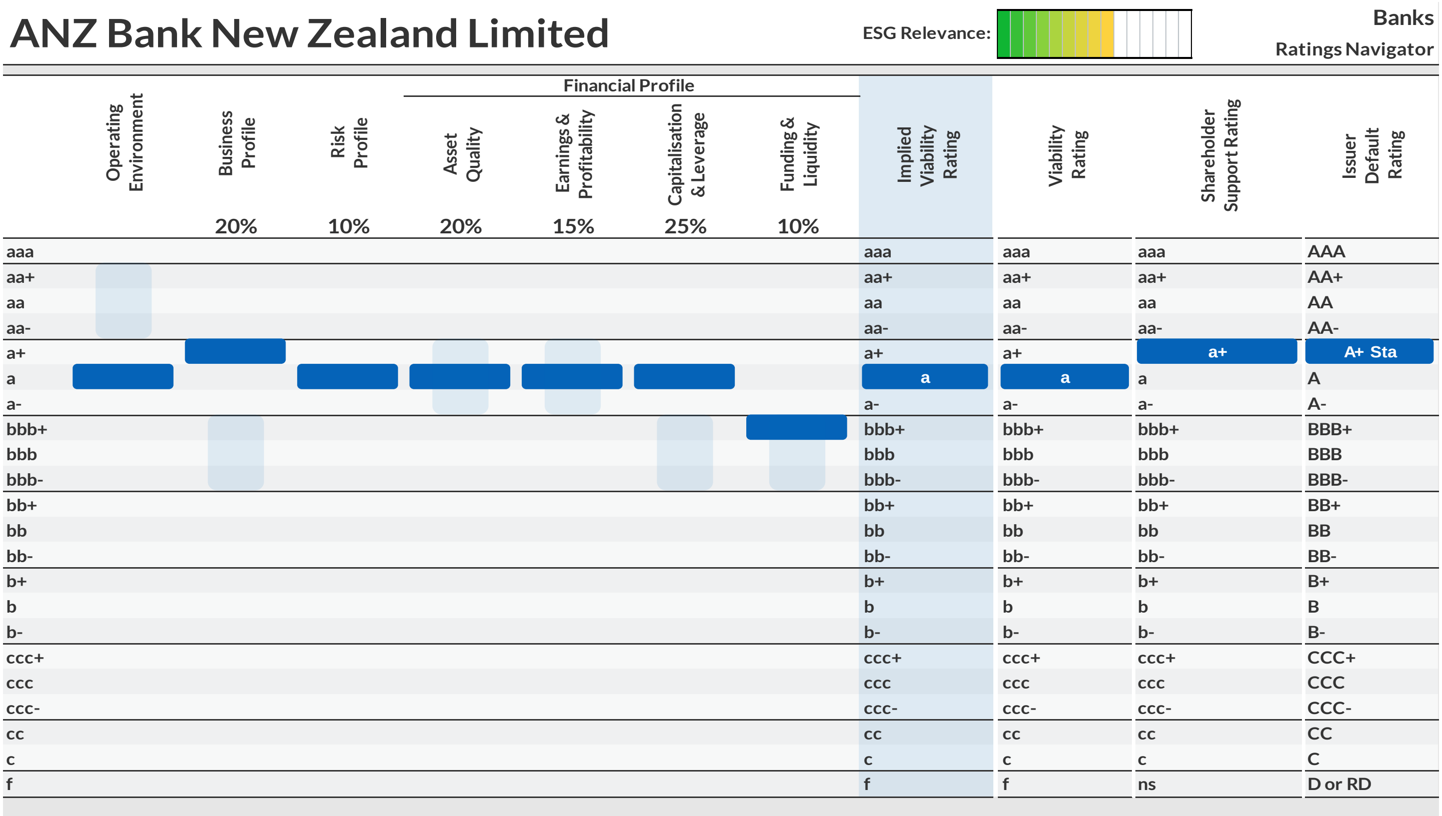
Rating level	Rating
Senior unsecured: long term	A+
Senior unsecured: short term	F1

Source: Fitch Ratings

ANZNZ's senior unsecured debt is rated in line with its IDRs, as per Fitch's *Bank Rating Criteria*.

ANZNZ's senior debt ratings will move in line with ANZNZ's IDRs.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR - Adjustments to Key Rating Drivers

The operating environment score of 'a' has been assigned below the 'aa' category implied score for the following adjustment reason: level and growth of credit (negative).

The business profile score of 'a+' has been assigned above the 'bbb' category implied score for the following adjustment reason: market position (positive).

The capitalisation and leverage score of 'a' has been assigned above the 'bbb' category implied score for the following adjustment reason: leverage and risk-weight calculation (positive).

Financial Statements

	30 Sep 23		30 Sep 22	30 Sep 21	30 Sep 20	30 Sep 19
	Year end	Year end	Year end	Year end	Year end	Year end
	(USDm)	(NZDm)	(NZDm)	(NZDm)	(NZDm)	(NZDm)
	Audited - unqualified	Audited - unqualified	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)
Summary income statement						
Net interest and dividend income	2,561	4,293.0	3,776.0	3,424.0	3,262.0	3,244.0
Net fees and commissions	301	504.0	539.0	555.0	558.0	666.0
Other operating income	48	81.0	536.0	210.0	281.0	175.0
Total operating income	2,910	4,878.0	4,851.0	4,189.0	4,101.0	4,085.0
Operating costs	992	1,663.0	1,653.0	1,621.0	1,724.0	1,608.0
Pre-impairment operating profit	1,918	3,215.0	3,198.0	2,568.0	2,377.0	2,477.0
Loan and other impairment charges	109	183.0	39.0	-114.0	403.0	101.0
Operating profit	1,809	3,032.0	3,159.0	2,682.0	1,974.0	2,376.0
Other non-operating items (net)	20	34.0	12.0	n.a.	-60.0	105.0
Tax	507	849.0	882.0	743.0	541.0	662.0
Net income	1,323	2,217.0	2,289.0	1,939.0	1,373.0	1,819.0
Other comprehensive income	-81	-136.0	-15.0	-8.0	92.0	-35.0
Fitch comprehensive income	1,241	2,081.0	2,274.0	1,931.0	1,465.0	1,784.0
Summary balance sheet						
Assets						
Gross loans	89,519	150,051.0	147,713.0	141,341.0	133,392.0	133,022.0
- Of which impaired	702	1,177.0	734.0	773.0	1,169.0	729.0
Loan loss allowances	436	730.0	646.0	585.0	694.0	497.0
Net loans	89,083	149,321.0	147,067.0	140,756.0	132,698.0	132,525.0
Interbank	239	401.0	785.0	237.0	378.0	193.0
Derivatives	5,222	8,753.0	15,481.0	9,304.0	9,702.0	11,666.0
Other securities and earning assets	10,946	18,348.0	21,505.0	22,658.0	24,866.0	18,590.0
Total earning assets	105,490	176,823.0	184,838.0	172,955.0	167,644.0	162,974.0
Cash and due from banks	7,413	12,426.0	11,327.0	7,234.0	7,466.0	2,066.0
Other assets	3,007	5,040.0	4,969.0	4,580.0	4,634.0	4,376.0
Total assets	115,910	194,289.0	201,134.0	184,769.0	179,744.0	169,416.0
Liabilities						
Customer deposits	79,065	132,529.0	130,330.0	125,129.0	120,863.0	109,108.0
Interbank and other short-term funding	8,066	13,521.0	16,207.0	11,452.0	8,423.0	6,917.0
Other long-term funding	10,863	18,209.0	19,082.0	19,061.0	21,998.0	23,767.0
Trading liabilities and derivatives	4,967	8,326.0	13,785.0	7,727.0	8,252.0	11,042.0
Total funding and derivatives	102,962	172,585.0	179,404.0	163,369.0	159,536.0	150,834.0
Other liabilities	1,399	2,345.0	2,005.0	2,067.0	1,898.0	1,712.0
Preference shares and hybrid capital	1,067	1,788.0	2,791.0	2,741.0	2,741.0	2,740.0
Total equity	10,483	17,571.0	16,934.0	16,592.0	15,569.0	14,130.0
Total liabilities and equity	115,910	194,289.0	201,134.0	184,769.0	179,744.0	169,416.0
Exchange rate		USD1 = NZD1.6762	USD1 = NZD1.7443	USD1 = NZD1.454757	USD1 = NZD1.514463	USD1 = NZD1.593117

Source: Fitch Ratings, Fitch Solutions, ANZ Bank New Zealand Limited

Key Ratios

	30 Sep 23	30 Sep 22	30 Sep 21	30 Sep 20	30 Sep 19
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.7	2.9	2.8	1.9	2.5
Net interest income/average earning assets	2.4	2.1	2.0	2.0	2.1
Non-interest expense/gross revenue	34.1	34.1	38.7	42.0	39.4
Net income/average equity	12.9	13.7	11.9	9.2	13.5
Asset quality					
Impaired loans ratio	0.8	0.5	0.6	0.9	0.6
Growth in gross loans	1.6	4.5	6.0	0.3	4.8
Loan loss allowances/impaired loans	62.0	88.0	75.7	59.4	68.2
Loan impairment charges/average gross loans	0.1	0.0	-0.1	0.3	0.1
Capitalisation					
Common equity Tier 1 ratio	12.5	12.4	13.4	11.7	10.8
Tangible common equity/tangible assets	7.4	6.8	7.2	6.9	6.5
Basel leverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Net impaired loans/common equity Tier 1	3.2	0.7	1.5	4.0	2.2
Funding and liquidity					
Gross loans/customer deposits	113.2	113.3	113.0	110.4	121.9
Gross loans/customer deposits + covered bonds	110.4	109.9	109.3	106.4	117.1
Liquidity coverage ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Customer deposits/total non-equity funding	79.8	77.4	79.0	78.5	76.6
Net stable funding ratio	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, ANZ Bank New Zealand Limited

Support Assessment

Shareholder Support	
Parent IDR	A+
Total Adjustments (notches)	0
Shareholder Support Rating:	**a+**
Shareholder ability to support	
Shareholder Rating	A+/ Stable
Shareholder regulation	Equalised
Relative size	1 Notch
Country risks	Equalised
Shareholder propensity to support	
Role in group	Equalised
Reputational risk	Equalised
Integration	Equalised
Support record	1 Notch
Subsidiary performance and prospects	Equalised
Legal commitments	2+ Notches

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

ANZNZ's IDRs, senior debt ratings and SSR reflect Fitch's assessment that there remains a very high probability of support from the Australian parent, ANZ, if required.

The IDRs are driven by the SSR, which is aligned with the Long-Term IDR of the parent, to reflect Fitch's assessment that ANZNZ remains a key and integral part of ANZ. New Zealand has been identified as a core market for ANZ and ANZNZ is the only New Zealand-incorporated bank within the group. Another factor that supports alignment with the parent ratings is our view that an ANZNZ default would constitute huge reputational risk to ANZ and damage the group's franchise. In addition, we would expect cooperation between the Australian and New Zealand banking regulators on the stability of their financial systems to allow the required support to flow to the subsidiary.

Our Outlooks on ANZNZ's Long-Term IDRs reflect the Stable Outlook on ANZ's Long-Term IDR.

Subsidiaries and Affiliates

ANZNZ issues 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 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.

The ratings of the guaranteed instruments issued by ANZIL would be downgraded if ANZNZ's IDRs are downgraded or upgraded if ANZNZ's IDRs are upgraded.

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.

			ESG Relevance to Credit Rating
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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h 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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	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; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	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	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

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.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.