MOODY'S RATINGS

CREDIT OPINION
29 August 2024

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

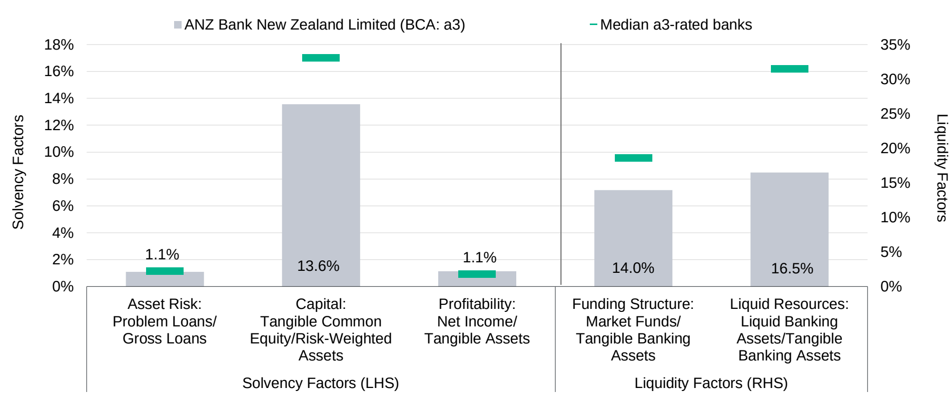
ANZ Bank New Zealand's (ANZNZ) A1 senior unsecured and deposit ratings include two notches of uplift on top of its standalone baseline credit assessment (BCA) of a3. This reflects the very high probability of support from its Australian parent, the Australia and New Zealand Banking Grp. Ltd. (ANZ), rated Aa2, 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, asset quality is weakening as households face pressure from high inflation and interest rates, although we expect the rise in loan losses to be manageable in the context of the bank's prudent underwriting standards and healthy loan-loss buffers.

ANZNZ's funding and liquidity profiles remain robust and supported by steady deposit growth.

Rising interest rates have provided uplift to the bank's net interest margin (NIM), but the potential for credit costs to rise, combined with intense competition for mortgages, are headwinds for profitability.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Ratings

Credit strengths

» Strong market position as New Zealand's largest bank

» Capital provides a strong buffer against a likely rise in credit losses

» New Zealand's strong operating environment

Credit challenges

» High interest rates and persistent inflation are key risks to asset quality

» Competition and inflationary pressures on expenses are headwinds to bank profitability

» 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%. That said, we see limited upside to ANZNZ's BCA over the next 12 months given the weakening operating environment and the impact to asset quality.

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:

» Deteriorating asset quality, with problem loans/gross loans rising above 2%.

Key indicators

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

	03-24[2]	09-23[2]	09-22[2]	09-21[2]	09-20[2]	CAGR/Avg.[3]
Total Assets (NZD Million)	190,013.4	187,825.0	189,627.0	178,509.0	174,523.0	2.5[4]
Total Assets (USD Million)	113,656.6	112,854.6	107,262.4	123,144.5	115,359.6	(0.4)[4]
Tangible Common Equity (NZD Million)	14,500.0	14,545.0	13,787.0	13,431.0	12,359.0	4.7[4]
Tangible Common Equity (USD Million)	8,673.2	8,739.4	7,798.6	9,265.4	8,169.3	1.7[4]
Problem Loans / Gross Loans (%)	1.1	0.8	0.5	0.5	0.9	0.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	13.6	13.1	12.8	13.8	12.1	13.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.8	7.7	5.1	5.5	9.0	7.6[5]
Net Interest Margin (%)	2.3	2.3	2.1	2.0	2.0	2.1[5]
PPI / Average RWA (%)	2.8	2.9	3.1	2.6	2.4	2.7[6]
Net Income / Tangible Assets (%)	1.1	1.2	1.2	1.1	0.8	1.1[5]
Cost / Income Ratio (%)	36.1	34.4	34.2	38.9	42.1	37.1[5]
Market Funds / Tangible Banking Assets (%)	14.0	14.9	15.6	15.1	16.5	15.2[5]
Liquid Banking Assets / Tangible Banking Assets (%)	16.5	16.5	17.3	17.0	18.6	17.2[5]
Gross Loans / Due to Customers (%)	111.6	112.8	113.0	112.6	110.1	112.0[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 Ratings 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 17% of the parent's total assets and 29% of net income at 31 March 2024.

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 2024, ANZNZ was New Zealand's largest bank by total assets of NZD196 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 2024. 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 during the pandemic, enhancement of online security measures and ongoing regulatory development on Open Banking reforms.

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 the Reserve Bank of New Zealand's (RBNZ) macro-prudential measures. The RBNZ further eased LTV restrictions with the introduction of debt-to-income (DTI) restrictions which came into effect on 1 July 2024. Under the updated settings, residential property investor loans with LTV ratios of greater than 70% are restricted to 5% of a bank's new residential property investor mortgage lending (previously applied to loans with LTV ratios greater than 65%), while for owner-occupiers, loans with LTV ratios of higher than 80% cannot exceed 20% of a bank's new owner-occupier mortgage lending (previously 15%).

Capitalization will continue to strengthen under tighter capital rules

ANZNZ's capital position remains strong and supported by stable earnings. The bank reported a Common Equity Tier 1 (CET1) ratio of 12.8% and a total capital ratio of 16.2% as of 31 March 2024. Both ratios are well above the current 9% and 13.5% prudential requirements, including buffers, 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, although the requirements will be introduced incrementally out to 2028.

Furthermore, we believe the capital strength of New Zealand banks is 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 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.

Asset quality to weaken further amid a subdued economic environment, albeit from a strong base

ANZNZ's strong asset quality is supported by its focus on lower risk residential mortgages which have exhibited very low losses historically. The bank's proportion of Stage 3 loans rose 55 basis points (bps) to 1.09% of gross loans in the 12 months to March 2024, due to persistent challenges from high interest rates and inflation constraining household finances.

Inflation has moderated since its 2022 peak but remains above the RBNZ's target, and although interest rates have now started to decline, they are likely to remain high and challenge borrowers who are sustaining a longer period of high loan repayments. After declining from a post-pandemic peak, house prices recovered for most of 2023 and are up 1.3% in the 12 months to June 2024, but have started to decline on a monthly basis. We expect the housing market to remain stagnant into 2025, weighed by high interest rates and subdued economic conditions. Given these challenges, we expect a further increase in problem loans over the next 12 months as monetary policy remains restrictive.

That said we expect any potential rise in credit losses to be contained relative to the bank's balance sheet buffers and prudent underwriting standard. For example, limits on high LTV mortgage lending that have been in place since October 2013 have helped mitigate risks in the housing market. As of 30 March 2024, ANZNZ's proportion of lending at LTVs above 80% was just 6.8%.

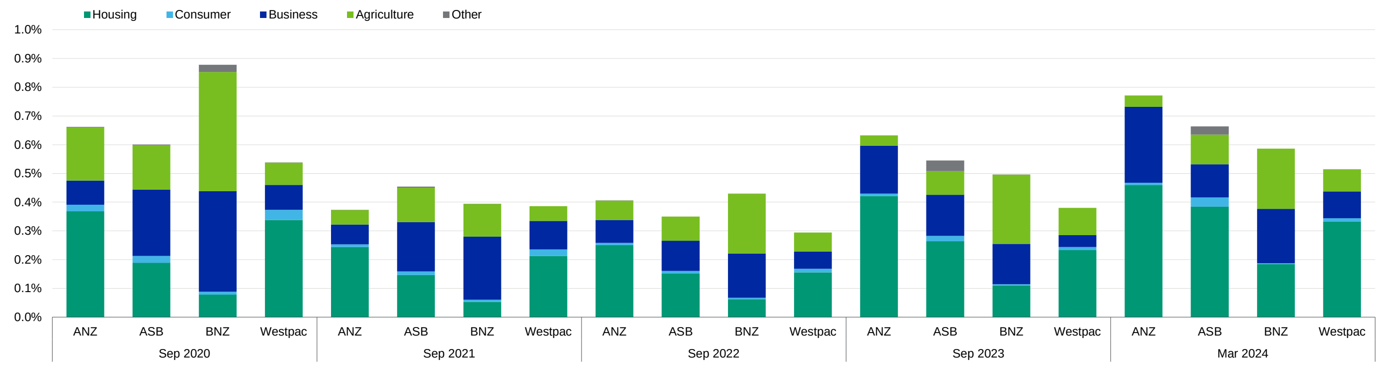
Alongside the LTV restrictions, which aim to reduce the severity of losses in a housing downturn, the RBNZ's DTI restrictions target the probability of default on a bank's loans. Banks have been given 12 months to prepare for the new DTI rules, which limit a bank's residential property lending to investors, with a DTI ratio over 7, to 20% of new investor lending, and loans to owner-occupiers, with a DTI ratio over 6, to 20% of new owner-occupied lending.

Additionally, the agriculture sector has been impacted by high interest rates and inflationary pressures on input costs. Slower global growth has also affected demand for dairy exports and prices. That said, the sector has been focused on deleveraging in the past few years, with ANZNZ's agricultural non-performing loans ratio remaining low at 0.4% at the end of March 2024, albeit up from 0.2% at March 2023.

While softening economic growth will lead to weaker labour market outcomes, we do not expect the unemployment rate to rise significantly above pre-COVID levels of 4-4.5%, limiting the rise in problem loans.

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

Exhibit 3
Asset quality risks will rise further amid high interest rates and inflationary pressure
Non-performing loans % Gross loans



Source: RBNZ

Earnings remain stable and are expected to face marginal pressure slow credit growth and competition

ANZNZ's net income grew 3% year-on-year to NZD1,082 million in first-half 2024 on the back of reduced impairment and a flat NIM. The bank reported a lower credit impairment charge of NZD 33 million including a NZD 31 million write-back during the period compared to NZD 121 million credit impairment charge during second half fiscal 2023. The bank also experienced increased operating expenses driven by an increase in risk and regulatory spend, as well as the impact of wage inflation.

The banks NIM remained stable at 2.34% in first-half 2024. Looking ahead, we expect ANZNZ's profitability to face some pressure as the bank's NIM is constrained by strong competition amid slower loan growth while high interest rates continue to drive depositors towards higher-cost term deposits. Further rate cuts over the next 12 months will add further pressure on margins.

Credit growth is likely to remain subdued in the high interest rate environment, and as consumer and business sentiment remains weak amid difficult economic conditions. Despite some easing of cost-of-living pressures, the economic outlook is subdued, raising the prospect of rising credit costs

Investment in operational capabilities through technology and people will continue to be a key focus for the bank, driven by both competitive and prudential pressures, with the cost of these projects expected to be partially offset by a gradual improvement in revenue generation ability and efficiency gains. The bank's strong cost management has been demonstrated through its very strong cost-to-income (CTI) ratio of around 36%. As such, we expect the bank will be able to broadly maintain its current CTI ratio despite rising inflation pressuring its cost base.

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. The bank's proportion of loans to customer deposits remained largely stable at 112% during first-half 2024, although an improvement from the pre-COVID level of 122% as of September 2019.

We expect the bank's deposits as a share of total funding to fall slightly as higher interest rates and cost of living pressures reduce the saving capacity of households, slowing deposit growth. The bank's wholesale funding issuance should also tick up as it refinances its drawdown of the RBNZ's Funding for Lending Programme, which began maturing in fiscal 2024. This program was established in November 2020 in response to the economic downturn from the pandemic and provided low-cost three year 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 ANZNZ to rapidly monetize its large mortgage book. As of 31 March 2024, the bank held NZD10.7 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 1.0% in 2024 and 2.3% in 2025.

The inflation rate has fallen to 4.0% in Q1 2024 from 6.7% in Q1 2023, and the central bank expects this to return to within its target range of 1-3% in the second half of 2024. Economic conditions are likely to remain subdued as monetary policy remains restrictive and as the lagged impact of previous rates cuts take effect. After declining from a post-pandemic peak, house prices recovered for most of 2023 and are up 1.3% in the 12 months to June 2024, but have started to decline on a monthly basis. Labour markets remain tight although the unemployment rate has ticked up to 4.3% as at March 2024, slightly above its pre-pandemic average of around 4%. The moderation of the labour market conditions should ease wage inflation pressures and further dampen inflation, supporting the RBNZ's case to ease rates further. Before then, elevated interest rates will continue to weigh on consumer demand and housing investment.

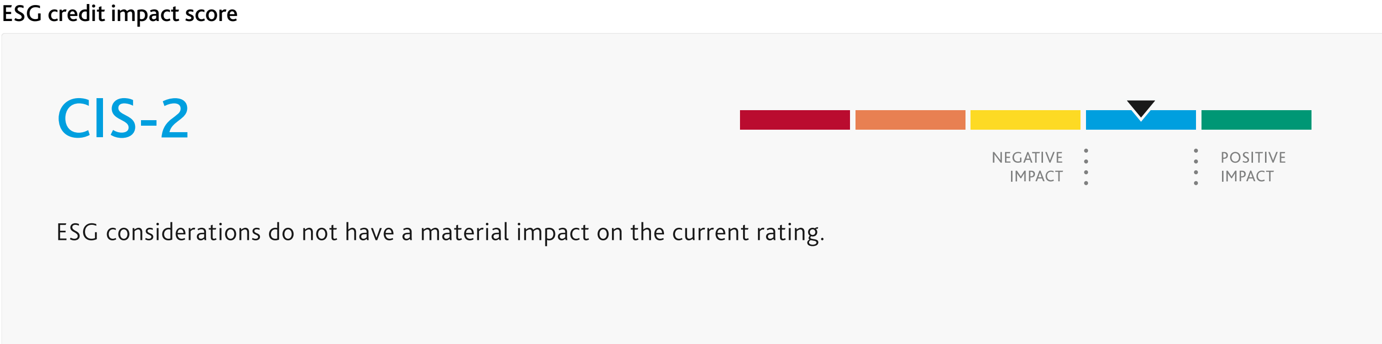
Banks' asset quality will continue to weaken as the burden of higher rates erodes household savings buffers and low business sentiment contributes to higher unemployment. The labour market remains resilient while low loan to value ratios on home loans should provide a buffer to asset quality risk.

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 CIS-2

Exhibit 4
ESG credit impact score



Source: Moody's Ratings

ANZNZ's **CIS-2** indicates the limited credit impact from environmental and social risk factors on the rating to date, as well as low governance risks.

Exhibit 5
ESG issuer profile scores

Source: Moody's Ratings

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

Rating Factors

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		1.1%	aa3	↔	a2		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		13.6%	a2	↔	a1		
Profitability							
Net Income / Tangible Assets		1.1%	a3	↓	a3		
Combined Solvency Score			a1		a2		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		14.9%	a2	↓	a3		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		16.5%	baa2	↔	baa2		
Combined Liquidity Score			a3		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 Ratings

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	Aa1/P-1
Bank Deposits -Fgn Curr	Aa2/P-1
Bank Deposits -Dom Curr	Aa1/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa1(cr)/P-1(cr)
Issuer Rating	Aa2
Senior Unsecured	Aa2
Subordinate	A3 (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 Ratings

REPORT NUMBER 1411826

CLIENT SERVICES

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