FitchRatings

Banks
Universal Commercial Banks
New Zealand

ANZ Bank New Zealand Limited

Key Rating Drivers

Support Prospects: ANZ Bank New Zealand Limited's (ANZNZ) Shareholder Support Rating (SSR) and Long-Term Issuer Default Ratings (IDR) 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, AA-/Stable/a+), if required. The anchor rating for ANZNZ's SSR is ANZ's Viability Rating (VR) as it is unclear whether qualifying junior debt buffers being built by ANZ will be pre-placed or effectively available to support ANZNZ's senior creditors.

Integral Subsidiary: ANZNZ's SSR reflects its position as a key and integral part of ANZ, offering products and services in the group's core market, New Zealand. A sale would be 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.

Reduced Household Sector Risk: Fitch has revised the operating environment score for New Zealand banks to 'a+'/stable from 'a'/stable to reflect a sustained reduction in risks from the household sector over the last decade, due in part to a strengthened regulatory environment. However, household debt remains high relative to many other jurisdictions and we maintain the score below the implied 'aa' category score to reflect this.

The strengthened regulatory framework includes macroprudential speed limits on riskier residential mortgages, which should reduce asset quality pressure as unemployment rises. The score also incorporates the small, open nature of New Zealand's economy, which leaves it susceptible to global shocks.

Market Position Underpins VR: ANZNZ's 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 20% across residential mortgages, agriculture loans and business loans, as well as deposits.

Peak Stage 3 Loan Ratio in 2025: We expect ANZNZ's stage 3 loan/gross loan ratio to peak in 2025 as the full effect of rapid interest-rate hikes in 2021-2023 and increased unemployment put pressure on some borrowers' repayment capability. The ratio rose by 30bp to 1.1% in 1H24. Provisioning levels will probably fall as impaired-loan balances rise and existing overlays raised for weaker economic conditions are utilised.

Stable Profitability: We expect ANZNZ's operating profit/ risk-weighted assets (RWA) ratio to be relatively stable in the financial year ending 30 September 2025 (FY25), with a modest reduction in the net interest margin, driven by an easing rate cycle, offset by modest loan growth and cost control. Cost efficiency should remain strong, with the cost/income ratio likely to remain around 35%.

Capitalisation to Improve: We expect the common equity Tier 1 (CET1) ratio to continue to rise towards 14% from the 12.8% reported at end-1H24 as the bank builds towards final implementation of 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.

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 (New Zealand)	
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 (March 2024)

Related Research

Fitch Affirms ANZ Bank New Zealand at 'A+'; Outlook Stable (October 2024)

DM100 Banks Tracker – End-2023 (July 2024)

Fitch Upgrades Australia and New Zealand Banking Group to 'AA-'; Stable Outlook (May 2024)

Fitch Ratings: Major New Zealand Banks' Ratings Resilient in Challenging Operating Environment (April 2024)

Fitch: New Zealand's Proposed Debt-to-Income Caps Would Curb Mortgage Lending Risk (January 2024)

Analysts

Tim Roche
+61 2 8256 0310
tim.roche@fitchratings.com

Nikkita Lok
+61 2 8256 0345
nikkita.lok@fitchratings.com

Rating Sensitivities

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

Long-Term IDRs and SSR

Any downgrade of ANZ's VR is likely to result in a downgrade of the SSR and Long-Term IDRs assigned to ANZNZ; see Fitch Upgrades Australia and New Zealand Banking Group to 'AA-'; Stable Outlook, published on 27 May 2024, for the key drivers and sensitivities of ANZ's VR.

The Long-Term IDRs and the SSR may also be downgraded should we change our view on ANZNZ's importance to ANZ. This could be reflected in a 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 significantly above 1.5% (FY20-FY23: 0.7%) for a sustained period;
- The four-year average of the operating profit/RWA ratio falling consistently and significantly below 2.0% (FY20-FY23: 2.6%);
- The CET1 capital ratio declining below 10.5% without a credible plan to return to above this level (end-1H24: 12.8%).

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

Long-Term IDRs and SSR

An upgrade on ANZ's VR is likely to be reflected in ANZNZ's SSR and Long-Term IDRs, as long as there is no change to ANZ's propensity to support ANZNZ.

We may also change the anchor rating to ANZ’s Long-Term IDR if qualifying junior debt or equity is pre-placed in ANZNZ to meet resolution requirements or ANZ’s resolution plans identify ANZNZ as a beneficiary of intra-group resources. This would result in an upgrade of ANZNZ’s SSR and Long-Term IDRs.

VR

An upgrade of the VR would 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

Short-Term IDRs

The Short-Term IDRs of 'F1' are at the lower of the two options available at a Long-Term IDR of 'A+', as the parent's funding and liquidity score is below 'aa-'. This is the threshold for an 'F1+' Short-Term IDR.

Senior Unsecured

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

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

Short-Term IDRs

ANZNZ’s Short-Term IDRs may be downgraded if the Long-Term IDRs are downgraded to ‘A-’ or below.

Senior Unsecured

ANZNZ's senior unsecured debt ratings would be downgraded if ANZNZ's IDRs are downgraded.

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

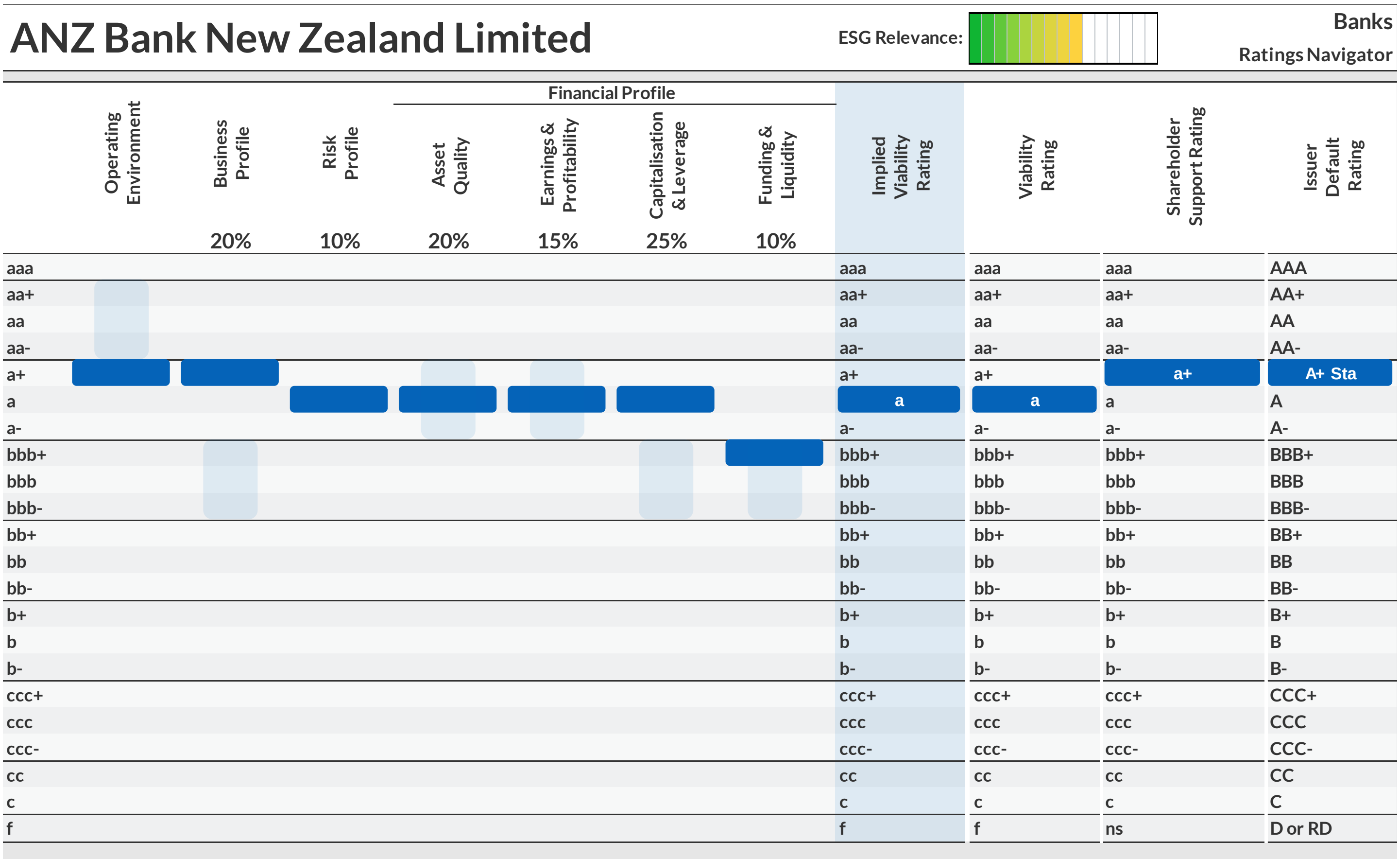
Short-Term IDR

ANZNZ’s Short-Term IDRs would be upgraded if the Long-Term IDRs are upgraded to ‘AA-’ or the parent’s Funding and Liquidity score was raised to ‘aa-’.

Senior Unsecured

ANZNZ's senior unsecured debt ratings would be upgraded if ANZNZ's IDRs are upgraded.

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).

Company Summary and Key Qualitative Factors

Operating Environment

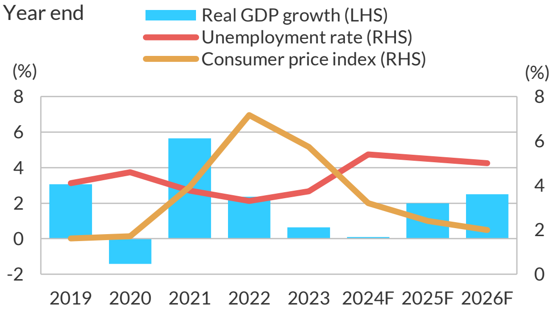
We expect New Zealand's real GDP to expand only marginally in 2024 as the full effect of the rapid interest-rate rise from 2021 to 2023 to tackle high inflation is felt by the economy, before growing by 2% in 2025. We expect unemployment to rise to around 5.4% as a result, from 4.6% at end-June 2024. Losses for banks should be manageable at this level, in part due to the strengthened macroprudential rules that were implemented over the last decade, as well as growing capital bases as banks prepare for the final implementation of the Reserve Bank of New Zealand's (RBNZ) new framework in mid-2028.

House prices stabilised during 2024 after falling through 2022 and 2023. The decline coincided with tighter monetary policy but came after a period of strong growth during 2020 and 2021. The RBNZ's loan/value ratio macroprudential limits mean loans with negative equity remain only a small portion of residential mortgages even after several years of price declines, while newly implemented debt/income limits should reduce the pace and scale of any future upswing in prices as interest rates are lowered. The RBNZ started easing rates in August 2024 from a peak of 5.5% and we expect the cash rate to reach 3% by end-2026.

New Zealand has high household leverage relative to many other countries, although it has remained broadly stable for the last 10 years. Household debt/disposable income was 166% at end-March 2024, down from a cyclical high of 175% at end-March 2022, and at similar levels to those reported in 2014. We expect the RBNZ's macroprudential policies to result in household leverage remaining around these levels through the cycle.

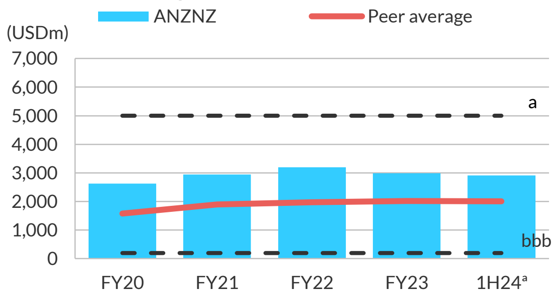
New Zealand Economy

Year end



Source: Fitch Ratings, Fitch Solutions

Total Operating Income



[a] Annualised; peer average includes FY24 for ASB rather than 1H24
Source: Fitch Ratings, Fitch Solutions, banks

Business Profile

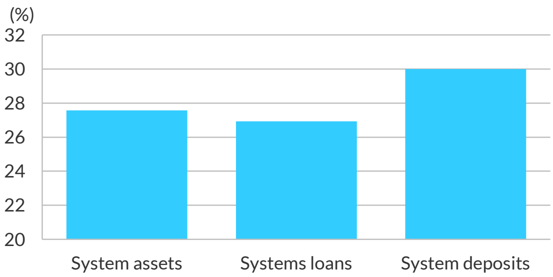
ANZNZ is well-placed to maintain its strong competitive position as New Zealand's largest bank in the medium term. This positioning affords it considerable economies of scale and underpins the financial profile and VR of the bank. The positioning also allows for high levels of ongoing investment in the business, particularly in digitisation, leaving ANZNZ well placed to address the threat from competitors.

The market position has enabled the bank to operate a simple, traditional banking model, which has resulted in relatively stable earnings. Reliance on more complex and volatile businesses such as trading is limited. However, there is a reliance on net interest income due to the predominance of loans on the balance sheet.

ANZ's ownership appears to offer modest benefits to ANZNZ's domestic franchise (lending and deposits), although it provides greater assistance to its wholesale funding franchise. ANZNZ only operates in New Zealand – this is unlikely to change, with any overseas operations likely to be undertaken by its parent.

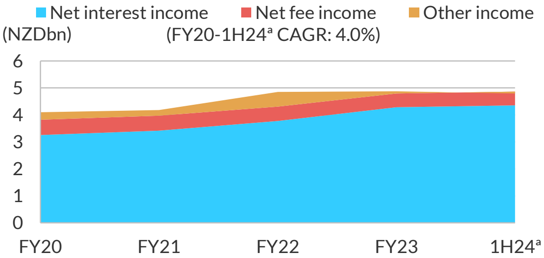
Market Share

End-June 2024



Source: Fitch Ratings, Reserve Bank of New Zealand

Revenue Breakdown



CAGR: compound annual growth rate
[a] Annualised
Source: Fitch Ratings, Fitch Solutions, ANZNZ

Risk Profile

Credit risk remains ANZNZ's largest risk, making up 83% (including supervisory adjustments) of RWAs at end-1H24. This largely resides in the loan portfolio, with securities exposures made up almost entirely of high-quality assets (mainly government securities) held for prudential liquidity purposes.

Residential mortgages made up 71% of gross loans at end-1H24, and risks from these exposures appear well-managed, reflecting conservative underwriting standards and macroprudential limits. Underwriting criteria has benefited from regulatory changes in both Australia and New Zealand, including loan-to-value (LVR) restrictions, which should limit the incidence of negative equity and, ultimately, residential mortgage losses for New Zealand banks, including ANZNZ. Debt-to-income restrictions implemented in mid-2024 should further reduce the build-up of risk in the mortgage portfolio by limiting the upswing of house prices as interest rates decline.

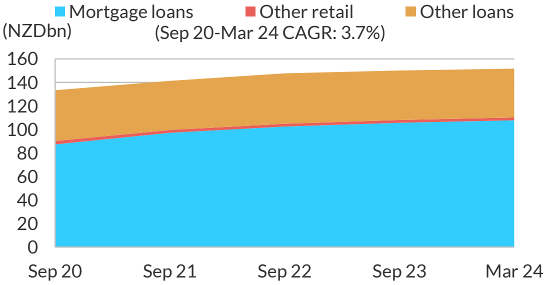
Business loans are likely to be the first source of large losses for New Zealand banks, should they emerge. Exposure to business loans is well-diversified by single names, although there are moderate concentrations on the agriculture and commercial real estate sectors, reflecting the structure of the New Zealand economy.

Interest-rate risk management appears sound, with hedging used to reduce the risk and all securities held in trading or available-for-sale categories, meaning movements in value are captured in capital levels.

We expect loan growth to remain around system growth levels, reflecting ANZNZ's large existing market share, which makes above-system growth difficult.

Non-financial risk management also appears adequate for the risks faced by the bank. Cyber risk remains one of the key non-financial risks facing New Zealand banks, and is an important focus for ANZNZ.

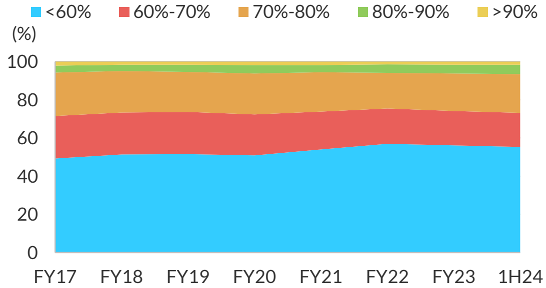
Loan Book Breakdown



CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, ANZNZ

Mortgage LVRs

On- and off-balance sheet



Source: Fitch Ratings, ANZNZ

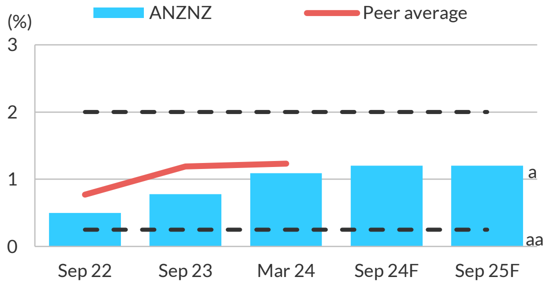
Financial Profile

Asset Quality

The rapid rise in interest rates during 2021-2023, slower economic growth and rising unemployment are likely to contribute to a weakening in ANZNZ's asset-quality metrics into 2025. However, the risk of significant impairments and losses appears low and the stage 3 loans/gross loans ratio should remain consistent with our asset quality factor score of 'a'. Our expectation for the unemployment rate is for a return to around the average of the last 10-15 years, while strong underwriting and regulatory limits on residential mortgages mean collateral coverage of most loans is high. Losses are most likely to come from business loans rather than the mortgage portfolio.

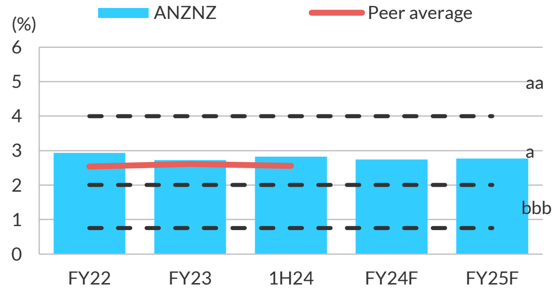
Loan-loss allowance coverage of impaired loans has fallen as impaired-loan balances increased and the bank utilised overlays previously raised to reflect the weakening economic environment. Coverage fell to 45% during 1H24 from 62% at FYE23, and we expect it to remain around these levels through to FYE25. This level of coverage appears adequate in light of the high level of security – largely property – within the loan portfolio.

Impaired Loans/Gross Loans



Peer average includes FY24 at Jun 24 for ASB rather than Mar 24
Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



Peer average includes FY24 for ASB rather than 1H24
Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

We expect ANZNZ's net interest margin to fall to around 2.3% by FY26, driven by easing interest rates and continued loan competition. However, modest loan growth, cost control and low loan impairment charges should result in the operating profit/RWA ratio remaining stable at around 2.7%-2.8%.

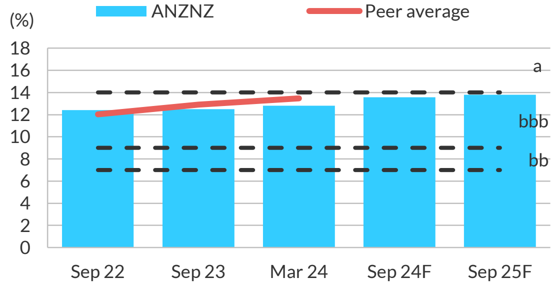
Comparisons of Fitch's core profitability metric (operating profit/RWA) for New Zealand banks with those of international peers is difficult due to the conservative capital framework implemented by the New Zealand regulator. We also take into consideration other, complementary metrics, such as the operating profit/average total assets ratio, when assigning the earnings and profitability score. Nevertheless, the assigned score of 'a' is consistent with the implied 'a' category score.

Capitalisation and Leverage

We expect ANZNZ to have little difficulty in meeting the minimum requirements under the RBNZ's new capital framework, with the bank likely to accumulate capital through retaining earnings during the implementation period. We expect the CET1 ratio to rise gradually through to the final implementation date of July 2028, with the bank likely to target a CET1 ratio of above 14% to allow for a buffer above the final 13.5% regulatory minimum (including buffers). This may be positive for our assessment of the capitalisation and leverage factor score.

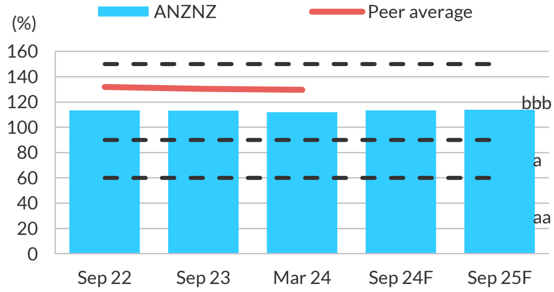
The new framework, which also includes a floor for modelled outcomes at 85% of the standardised approach and an internal ratings-based model scalar of 1.2x, adds further conservatism to the risk-weighted regulatory capital ratios reported by New Zealand banks relative to many international peers. Our assessment of ANZNZ's capitalisation takes into consideration this conservatism when arriving at the factor score of 'a', which is above the 'bbb' category implied score. We also use non-risk-weighted ratios, such as the tangible common equity/tangible asset ratio, when assessing capitalisation as a result.

CET1 Ratio



Peer average includes FY24 at Jun 24 for ASB rather than Mar 24
Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



Peer average includes FY24 at Jun 24 for ASB rather than Mar 24
Source: Fitch Ratings, Fitch Solutions, banks

Funding and Liquidity

We expect ANZNZ's loan growth to modestly outpace customer deposit growth through to FY26, but for the loan/customer deposit ratio to remain below 115% over this period. This would still be below ratios reported pre-pandemic, which were above 120%. ANZNZ's deposit base appears stable – deposits from households made up over 60% of total deposits at end-1H24, with the remainder well-spread by industry.

Wholesale funding, including from offshore markets, remains an important part of ANZNZ's funding mix. The risk associated with this is managed well through sound liquidity management, robust contingency plans and diversification of products, investors and markets. The bank also benefits from being a part of the ANZ group, accessing wholesale funding markets at pricing it would otherwise not be able to obtain on a purely standalone basis. Foreign-exchange risk is managed through the use of fully collateralised hedges.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macroeconomic forecasts, outlook at the sector level, and company-specific considerations. As a result, Fitch's forecasts may differ materially from the guidance provided by the rated entity to the market

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or M&A activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'a' category. Light-blue columns represent Fitch's forecasts.

Peer average includes ASB Bank Limited (VR: a), Bank of New Zealand (a) and Westpac New Zealand Limited (a). Financial year end of ANZ Bank New Zealand Limited, Bank of New Zealand and Westpac New Zealand Limited is 30 September. Financial year end of ASB Bank Limited is 30 June.

Financials

Financial Statements

	31 Mar 24		30 Sep 23	30 Sep 22	30 Sep 21
	1st half (USDm)	1st half (NZDm)	12 months (NZDm)	12 months (NZDm)	12 months (NZDm)
	Reviewed – unqualified	Reviewed – unqualified	Audited – unqualified	Audited – unqualified (emphasis of matter)	Audited – unqualified (emphasis of matter)
Summary income statement					
Net interest and dividend income	1,304	2,176	4,293	3,776	3,424
Net fees and commissions	153	255	504	539	555
Other operating income	-19	-32	81	536	210
Total operating income	1,437	2,399	4,878	4,851	4,189
Operating costs	514	858	1,663	1,653	1,621
Pre-impairment operating profit	923	1,541	3,215	3,198	2,568
Loan and other impairment charges	20	33	183	39	-114
Operating profit	903	1,508	3,032	3,159	2,682
Other non-operating items (net)	1	2	34	12	–
Tax	256	428	849	882	743
Net income	648	1,082	2,217	2,289	1,939
Other comprehensive income	21	35	-136	-15	-8
Fitch comprehensive income	669	1,117	2,081	2,274	1,931
Summary balance sheet					
Assets					
Gross loans	90,837	151,623	150,051	147,713	141,341
– Of which impaired	987	1,647	1,177	734	773
Loan loss allowances	442	737	730	646	585
Net loans	90,396	150,886	149,321	147,067	140,756
Interbank	390	651	401	785	237
Derivatives	5,088	8,492	8,753	15,481	9,304
Other securities and earning assets	11,113	18,549	18,348	21,505	22,658
Total earning assets	106,986	178,578	176,823	184,838	172,955
Cash and due from banks	7,471	12,470	12,426	11,327	7,234
Other assets	3,066	5,118	5,040	4,969	4,580
Total assets	117,523	196,166	194,289	201,134	184,769
Liabilities					
Customer deposits	81,098	135,367	132,529	130,330	125,129
Interbank and other short-term funding	8,593	14,343	13,521	16,207	11,452
Other long-term funding	9,691	16,176	18,209	19,082	19,061
Trading liabilities and derivatives	4,739	7,911	8,326	13,785	7,727
Total funding and derivatives	104,122	173,797	172,585	179,404	163,369
Other liabilities	1,660	2,771	2,345	2,005	2,067
Preference shares and hybrid capital	1,236	2,063	1,788	2,791	2,741
Total equity	10,505	17,535	17,571	16,934	16,592
Total liabilities and equity	117,523	196,166	194,289	201,134	184,769
Exchange rate		USD1 = NZD1.66917	USD1 = NZD1.6762	USD1 = NZD1.7443	USD1 = NZD1.454757

Source: Fitch Ratings, Fitch Solutions

Key Ratios

	31 Mar 24	30 Sep 23	30 Sep 22	30 Sep 21
Ratios (%; annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.8	2.7	2.9	2.8
Net interest income/average earning assets	2.5	2.4	2.1	2.0
Non-interest expense/gross revenue	35.8	34.1	34.1	38.7
Net income/average equity	12.3	12.9	13.7	11.9
Asset quality				
Impaired loans ratio	1.1	0.8	0.5	0.6
Growth in gross loans	1.1	1.6	4.5	6.0
Loan loss allowances/impaired loans	44.8	62.0	88.0	75.7
Loan impairment charges/average gross loans	0.0	0.1	0.0	-0.1
Capitalisation				
Common equity Tier 1 ratio	12.8	12.5	12.4	13.4
Fully loaded common equity Tier 1 ratio	–	–	–	–
Fitch Core Capital ratio	–	–	–	–
Tangible common equity/tangible assets	7.3	7.4	6.8	7.2
Basel leverage ratio	–	–	–	–
Net impaired loans/common equity Tier 1	6.6	3.2	0.7	1.5
Net impaired loans/Fitch Core Capital	–	–	–	–
Funding and liquidity				
Gross loans/customer deposits	112.0	113.2	113.3	113.0
Gross loans/customer deposits + covered bonds	110.2	110.4	109.9	109.3
Liquidity coverage ratio	–	–	–	–
Customer deposits/total non-equity funding	80.6	79.8	77.4	79.0
Net stable funding ratio	–	–	–	–

Source: Fitch Ratings, Fitch Solutions

Support Assessment

Shareholder Support	
Shareholder VR	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 Long-Term IDRs and SSR reflect Fitch's assessment that there remains a very high probability of support from the Australian parent, ANZ, if required.

The Long-Term IDRs are driven by the SSR, which is aligned with the VR 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. Also, a default by ANZNZ 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, which is in turn driven by our assessment of the likelihood of a change in ANZ's VR.

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.

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

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

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

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

Environmental, Social and Governance Considerations

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 reflect 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.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. Fitch Ratings makes routine, commonly-accepted adjustments to reported financial data in accordance with the relevant criteria and/or industry standards to provide financial metric consistency for entities in the same sector or asset class.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.