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Research Update:

ANZ Bank New Zealand Ltd. Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

Primary Credit Analyst:

Gavin J Gunning, Melbourne (61) 3-9631-2092; gavin.gunning@standardandpoors.com

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Research Update:

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Overview

- We have affirmed the ratings on ANZ Bank New Zealand Ltd. as the bank remains core to the global ANZ group. The stable rating outlook reflects that on its parent, Australia and New Zealand Banking Group Ltd.
- This is despite our opinion that New Zealand's economic vulnerabilities, including a material dependence on external borrowings, persistent current account deficits and strong recent growth in house prices could escalate. In our view, this increases the risk of a deterioration in New Zealand banks' credit quality.

Rating Action

On May 16, 2013, Standard & Poor's Ratings Services said today that it had affirmed the 'AA-/A-1+' ratings on ANZ Bank New Zealand Ltd. (ANZNZ). The outlook on ANZNZ remains stable.

Rationale

A potential change in the economic risks for New Zealand would have no impact on the issuer credit rating of ANZNZ. We are of the view ANZNZ remains core to the group and that the stable outlook on ANZNZ ratings reflects that on its parent, Australia and New Zealand Banking Group Ltd.(ANZ); the ratings are therefore likely to remain equalized with the parent's. ANZNZ's stand-alone credit profile (SACP) could be lowered one notch due to an increase in economic risks in New Zealand, reflected in a lowering of the anchor SACP for a bank operating within New Zealand to 'bbb' from 'bbb+'. This anchor SACP forms the starting point of ANZNZ's SACP.

We consider that New Zealand's economic vulnerabilities have heightened because of the country's material dependence on external borrowings and persistent current account deficits, against the backdrop of an uncertain short-to-medium term outlook for the global economic recovery. Furthermore, we note the recent strong growth in house prices (particularly in Auckland). Consequently, we consider that there is an increasing risk that a sharp correction in property prices could occur if there is a weakening in the country's macroeconomic factors. For example, should there be a further widening in the country's current account deficit, or a weakening in terms of trade, this could raise the risk of a sharp depreciation in currency that may affect confidence in the housing market, particularly if accompanied by a significant rise in unemployment. If these were to occur, banks' credit losses

could rise materially, given that there was a build-up in housing prices and domestic credit over in the period preceding the global financial crisis. We consider that such a scenario would have a high impact on the banking sector and financial strength of the balance sheets of New Zealand banks. We note that the Reserve Bank of New Zealand's planned initiatives to manage banking systemic risks could mitigate some of these vulnerabilities.

Outlook

The stable outlook reflects our opinion that:

- ANZ's will continue to remain core to parent bank ANZ;
- The parent bank's (ANZ's) credit standing (AA-/Stable/A-1+) will remain unchanged;
- ANZ's stand-alone credit profile factors, including our outlook for capital and other financial risk factors, remain supportive of the current rating despite our views concerning increasing economic risks impacting the New Zealand banking sector.

As a core subsidiary of ANZ, we expect that our issuer credit rating on ANZ will move in tandem with ANZ should our issuer credit rating on ANZ change. Currently, we neither expect upward or downward movements to our ratings on ANZ over the next one-to-two years. We currently believe that there are limited prospects for our rating on parent bank ANZ being raised in the short-to-medium term; our current view on balance is that risks to the rating are on the downside.

Our 'AA-' issuer credit rating on ANZ could be lowered if our view moderates concerning ANZ's core status within the ANZ group. Our current view, however, is that this is unlikely to occur.

Our 'AA-' issuer credit rating on ANZ is unlikely to be revised negatively even if ANZ's SACP deteriorates as long as we continue to view ANZ as core to its parent. In our view, a downward revision of ANZ's SACP could occur due to the increase in economic risks in New Zealand resulting in a lowering of the anchor SACP for a bank operating within New Zealand to 'bbb' from 'bbb+'. We could also lower our SACP if our view of capital were to weaken outside our current 7%-10% range for 'adequate'. Further, our SACP could be lowered if our view of funding or liquidity weakens compared to domestic peers, or potentially if the peer group as a whole deteriorates, or if ANZ's risk position or earnings deteriorated significantly or unexpectedly.

In our view, an upward revision of ANZ's SACP is less-likely, in the short-to medium-term.

Related Criteria And Research

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011

- Group Rating Methodology, May 7, 2013
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2012
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- S&P To Publish Economic And Industry Risk Trends For Banks, March 12, 2013
- Basel III Hybrid Capital Instruments: Australian Banks Are Canaries In The Coalmine, Sept. 3, 2012
- Australian Banking Outlook: Will 2013 Bring Brickbats Or Bouquets?, Feb. 27, 2013
- New Zealand Banking Outlook: Significant Risk Remains Of A Sharp Correction In Property Prices, Feb. 27, 2013

Ratings List

Ratings Affirmed

ANZ Bank New Zealand Ltd.

Counterparty Credit Rating	AA-/Stable/A-1+
Certificate Of Deposit	
Foreign Currency	AA-

ANZ Bank New Zealand Ltd.

Senior Unsecured	AA-
Junior Subordinated	BBB+
Certificate Of Deposit	A-1+
Certificate Of Deposit	AA-

ANZ New Zealand (Int'l) Ltd.

Senior Unsecured	AA-
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