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Various Rating Actions Taken On New Zealand Financial Institutions Reflecting Rising Economic Imbalances

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OVERVIEW

- We believe that New Zealand banking financial institutions face increased risks stemming largely from rising house prices in Auckland, and these risks are accentuated by the structural external weaknesses in the New Zealand economy.
- Consequently, we have lowered our issuer credit ratings on seven New Zealand financial institutions.
- We also affirmed our issuer credit ratings on 11 financial institutions and New Zealand Post Ltd. Out of the 11 financial institutions, we lowered the stand-alone credit profiles of six and kept those on five unchanged.
- The rating affirmations reflect factors specific to each of these institutions, such as our assessment of parent support for the four major banks in New Zealand.

SYDNEY (Standard & Poor's) Aug. 14, 2015--Standard & Poor's Ratings Services said today that it has lowered its ratings on seven New Zealand financial institutions. At the same, we affirmed the ratings on 11 financial institutions in New Zealand and New Zealand Post Ltd. (see the ratings list below for the full list of affected issuer credit ratings). Out of the 11

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financial institutions whose ratings have been affirmed, we lowered the stand-alone credit profiles (SACP) of six institutions and kept those on five unchanged.

None of the lowering of the New Zealand financial institutions ratings or SACPs announced today were due to higher existing or emerging risks specific to the institution--such as any asset quality concerns.

The rating actions reflect our view that New Zealand financial institutions face heightened risks because of an increase in the country's overall level of economic imbalances over the past three years. In particular, we believe that the rapid rise in house prices in Auckland during this period has amplified the risk of a sharp correction in property prices, although we consider that such a scenario remains unlikely in our base case.

We had foreshadowed the possibility of these rating actions in several commentaries and negative rating outlooks on a number of financial institutions over the past two years (see article titled, "New Zealand Banking Outlook: Significant Risk Remains Of A Sharp Correction In Property Prices," Feb. 27, 2013).

Nevertheless, we believe that if a sharp fall in house prices in Auckland were to occur, most financial institutions in New Zealand will be adversely affected even when they do not have significant direct exposure to home lending in the city. This is because of the importance of Auckland to the New Zealand economy; it accounts for about 35% of the GDP and more than one-third of the country's population. Additionally, we believe that a sharp decline in house prices in Auckland would likely be accompanied by weakening in other macroeconomic factors such as a slowdown in GDP and a rise in unemployment. The business and consumer sentiment is also likely to suffer as a result, in our opinion.

Accentuating these risks are New Zealand economy's external weaknesses in our view. We expect that the credit losses of most New Zealand financial institutions will significantly increase in such a scenario. Consequently, we have revised our assessment of the stand-alone credit profiles (SACPs) of almost all institutions in New Zealand, although the impact on their ratings differs in some cases (see Credit FAQ titled, "Explaining Standard & Poor's Rating Actions On Several New Zealand Financial Institutions Due To Rising House Prices", Aug. 14, 2015).

Notwithstanding the increase in risks, we believe that New Zealand remains a relatively lower-risk banking system by global standards, as reflected in our revised score for the country's Banking Industry Country Risk Assessment (BICRA) of '4' on a scale of '1' (lowest risk) to '10' (highest risk). Indeed, we believe that the increased risk of a sharp correction in house prices is incremental and off a relatively low-risk level. We note that the current house price appreciation in Auckland follows a period of restrained growth in private sector debt and national house prices for 2007 to 2011. We consider that New Zealand's resilient economy, conservative banking regulation, and low risk-appetite support its banking sector. In our opinion, partly tempering these strengths are: the country's moderately high private sector debt; material dependence of the banking system on offshore and wholesale funding; and New Zealand's high external debt and current account deficit.

Our assessment takes into account macro-prudential tools implemented by the central bank that, in our opinion have been effective in controlling house price growth across New Zealand, excluding Auckland. While we consider that low interest rates have propelled credit growth and subsequently stoked house price growth, we believe that housing supply constraints and high net immigration have also contributed to price appreciation. Nevertheless, we note that macro-prudential tools have only had a temporary effect on house prices in Auckland, which resumed a rapid rise following a short period of abated growth. This is contrary to our previous base-case expectation that the macro-prudential tools would be more effective in stemming house price inflationary pressures across the country.

We have also taken note of other positive developments in the New Zealand banking sector in the past two years. The proportion of loans with high loan-to-value ratios (LVR) of more than 80% has reduced to about 15% of total bank mortgage lending at December 2014, from 21% in June 2013. In our opinion, these developments partly temper the increase in risks due to rising economic imbalances.

To further explain the above rating actions, and answer any related questions, we will be publishing a Credit FAQ shortly and hosting a webcast on Aug. 17, 2015 at 1.30pm New Zealand time. Details on the webcast will shortly be available on the following weblink (https://www.spratings.com/events) and can be obtained from our media contact Richard Noonan at richard.noonan@standardandpoors.com.

BICRA score snapshot

	SCORE	
	To	From
BICRA*	4	3
Economic Risk*	4	3
Economic Risk Trend	Stable	Negative
Economic Resilience**	1	1
Economic Imbalances**	4	3
Credit Risk In The Economy**	3	3
Industry Risk*	4	4
Industry Risk Trend	Stable	Stable
Institutional Framework**	2	2
Competitive Dynamics**	2	2
Systemwide Funding**	4	4

*On a scale of 1 (lowest risk) to 10 (highest risk)
**On a scale of 1 (lowest risk) to 6 (highest risk)

For more details on BICRA scores on all banking industries that we assess across the globe, please see our latest "Banking Industry Country Risk Assessment Update," updated on a monthly basis.

RATINGS LIST
ISSUER CREDIT RATINGS AFFIRMED

	To	From
ANZ Bank New Zealand Ltd.		
Issuer Credit Rating	AA-/Stable/A-1+	AA-/Stable/A-1+
Stand-alone credit profile	bbb+	a-
ASB Bank Ltd.		
Issuer Credit Rating	AA-/Stable/A-1+	AA-/Stable/A-1+
Stand-alone credit profile	a-	a
Bank of New Zealand		
Issuer Credit Rating	AA-/Stable/A-1+	AA-/Stable/A-1+
Stand-alone credit profile	bbb+	a-
Westpac New Zealand Ltd.		
Issuer Credit Rating	AA-/Stable/A-1+	AA-/Stable/A-1+
Stand-alone credit profile	bbb+	a-
Kiwibank Ltd.		
Issuer Credit Rating	A+/Negative/A-1	A+/Negative/A-1
Stand-alone credit profile	bbb	bbb
New Zealand Post Ltd.		
Issuer Credit Rating	A+/Negative/A-1	A+/Negative/A-1
Stand-alone credit profile	bbb	bbb
Rabobank New Zealand Ltd.		
Issuer Credit Rating	A/Negative/A-1	A/Negative/A-1
Stand-alone credit profile	bbb	bbb+
Police and Families Credit Union		
Issuer Credit Rating	BB+/Stable/B	BB+/Stable/B
Stand-alone credit profile	bb+	bb+
FE Investments Ltd.		
Issuer Credit Rating	B/Stable/B	B/Stable/B
Stand-alone credit profile	b	b
UDC Finance Ltd.		
Issuer Credit Rating	AA-/Stable/A-1+	AA-/Stable/A-1+
Stand-alone credit profile	bbb-	bbb
Liberty Financial Ltd.		
Issuer Credit Rating	BBB-/Stable/A-3	BBB-/Stable/A-3
Stand-alone credit profile	b-	b-

Medical Securities Ltd.		
Issuer Credit Rating	BBB+/Stable/--	BBB+/Stable/--
Stand-alone credit profile	bb+	bb+

ISSUER CREDIT RATINGS LOWERED

Credit Union Baywide		
Issuer Credit Rating	BB-/Stable/B	BB/Negative/B
Stand-alone credit profile	bb-	bb
Credit Union South		
Issuer Credit Rating	BB-/Stable/B	BB/Negative/B
Stand-alone credit profile	bb-	bb
First Credit Union		
Issuer Credit Rating	BB-/Stable/B	BB/Negative/B
Stand-alone credit profile	bb-	bb
Asset Finance Ltd.		
Issuer Credit Rating	B/Stable/B	B+/Negative/B
Stand-alone credit profile	b	b+
Avanti Finance Ltd.		
Issuer Credit Rating	BB/Stable/B	BB+/Negative/B
Stand-alone credit profile	bb	bb+
Fisher & Paykel Finance Ltd.		
Issuer Credit Rating	BB/Stable/B	BB+/Negative/B
Stand-alone credit profile	bb	bb+
MARAC Insurance Ltd.		
Issuer Credit Rating	BB+/Stable/--	BBB-/Negative/--
Financial Strength Rating	BB+/Stable/--	BBB-/Negative/--
Stand-alone credit profile	bb+	bb+

RELATED CRITERIA AND RESEARCH

Related Criteria For Banks And Nonbanks

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Use of CreditWatch and Outlooks, Sept. 14, 2009
- Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014

Related Criteria For New Zealand Post
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Dec. 16, 2014
- Key Credit Factors For The Railroad And Package Express Industry, Aug. 12, 2014
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios and Adjustments, Nov. 19, 2013
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- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- 2008 Corporate Criteria: Rating Each Issue, April 15, 2008

Related Criteria For MARAC Insurance
- Group Rating Methodology, Nov. 19, 2013
- 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
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use of CreditWatch and Outlooks, Sept. 14, 2009

Related Research
- Credit FAQ: Explaining Standard & Poor's Rating Actions On Several New Zealand Financial Institutions Due To Rising House Prices, Aug. 14, 2015
- New Zealand Banking Sector Outlook: RBNZ On A Sticky Wicket To Remove "Speed Limits"?, March 17, 2015
- Macro-Prudential Policy For New Zealand’s Financial System Represents A Good Start Toward Reducing Risks, June 4, 2013
- Outlooks On Eight New Zealand Banks Revised To Negative On Rising Economic Risks; Ratings On 15 Banks Affirmed, May 16, 2013
- New Zealand Banking Outlook: Significant Risk Remains Of A Sharp Correction In Property Prices, Feb. 27, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.