S&P Global Ratings

RatingsDirect®

Kiwibank Ltd.

Primary Credit Analyst:
Lisa Barrett, Melbourne (61) 3-9631-2081; lisa.barrett@spglobal.com

Secondary Contacts:
Nico N DeLange, Sydney (61) 2-9255-9887; nico.delange@spglobal.com
Riley Michel, Melbourne (61) 3-9631-2108; riley.michel@spglobal.com

Table Of Contents

Kiwibank Ltd.

SACP	bbb	+	Support	+3	+	Additional Factors	0

Anchor	bbb	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	+3
Group Support	0
Sovereign Support	0

Issuer Credit Rating
A/Positive/A-1

Major Rating Factors

Strengths:	Weaknesses:
• Beneficiary of extraordinary government support, if needed. • Meaningful market share in New Zealand as the country's largest locally owned commercial bank. • Strong risk-adjusted capital.	• Elevated operational risk. • Exposed to competitive pressures from larger peers.

Outlook: Positive

The positive outlook on Kiwibank Ltd. reflects our view that the bank's risk appetite is now converging with that of its peers. It also reflects our expectation that following recent management changes, a clear, solid strategy--including around its technology platform upgrade--could emerge in the next two years, which would likely reduce the risks faced by the bank. Such an improvement in the bank's risk profile will improve the bank's stand-alone credit profile (SACP) and issuer credit rating.

Upside scenario

We expect to raise our long-term ratings on Kiwibank over the next two years if we form a view that the bank is likely to maintain a risk appetite largely in line with the broader banking system in New Zealand, and a clear, solid strategy has emerged, particularly around its information technology platform.

Although unlikely in the next two years in our opinion, any strengthening of Kiwibank's role and link as a government-related entity (GRE) could also result in a higher rating.

Downside scenario

We would expect to revise the outlook to stable over the next two years should we form a view that Kiwibank's strategy is not progressing in a direction supportive of its credit profile, or if we considered that the bank has encountered significant strategic risks that negatively affect its financial profile or business franchise.

Furthermore, any weakening in our view of Kiwibank's role and link as a GRE could result in a lower rating.

Rationale

As a New Zealand GRE, our rating on Kiwibank benefits from three notches of extraordinary support from its SACP of 'bbb'. This is because we consider that Kiwibank plays an important role to the New Zealand government and that the bank has a very strong link to the government because of its indirect ownership. In our view, the creditworthiness of Kiwibank remains significantly insulated from its largest shareholder, New Zealand Post Ltd. (NZ Post) because we expect the regulator, the Reserve Bank of New Zealand (RBNZ), to protect the credit quality of Kiwibank by preventing NZ Post unfettered access to the cash flows and capital of Kiwibank. Consequently, we may assign Kiwibank a rating of up to three notches above our view of the group credit profile of the NZ Post group.

Our assessment of Kiwibank's SACP takes into account the bank's solid franchise strength as New Zealand's largest locally owned commercial bank (fifth overall). We expect the Kiwi Group Holdings Ltd. (KGHL) group to maintain its risk-adjusted capital (RAC) ratio above 10% over the next two years. Furthermore, we expect credit losses to remain very low given Kiwbank's predominantly low-risk mortgage loan book, set against a solid macroeconomic backdrop in New Zealand.

Anchor: Resilient economy and conservative regulations offset elevated imbalances and funding weakness

The starting point for our ratings on Kiwibank--similar to all other banks operating predominantly in New Zealand--reflects our assessment of New Zealand's macro environment. New Zealand benefits from an open, prosperous, flexible, and resilient economy, which draws from decades of structural reforms. We expect New

Zealand's economic growth to be solid over the medium term.

We consider the risks facing New Zealand's financial system to have stabilized, reflecting the slowdown of previously rapid increase in residential house prices and private sector credit extension, and the credit cycle maturing. We consider the key drivers in the slowdown in house prices and credit growth to be tighter bank lending standards and macroprudential tools implemented by the Reserve Bank of New Zealand (RBNZ).

Although New Zealand banks remain exposed to risk emanating from the rapid growth in house prices and private sector debt in recent years, the ongoing orderly unwinding of imbalances in the housing market over the past two years has reduced the risk, in our view. Nevertheless, New Zealand banks remain exposed to the economy's external weaknesses--in particular its persistent current account deficits, which we expect to be in line with historical levels of about 3% to 4% of GDP, and high level of external debt--about 170% of current account receipts.

We consider that the New Zealand banking sector's funding profile remains a weakness for the banking system despite a modest strengthening of banks' customer deposits and a slight reduction in banks' dependence on external borrowing over the past few years. Net external debt still funds about 27% of domestic customer loans and support from core customer deposits remains limited, at about 51% of domestic customer loans.

Partly offsetting these weaknesses is our expectation of funding support for the banking system from the New Zealand government and central bank if needed in a stress scenario. We also consider that the country's stable industry structure and banks' restrained risk appetite remain supportive of the banking industry.

Table 1

Kiwibank Ltd.--Key Figures

	--Year ended June 30--				
(Mil. NZ$)	**2019**	**2018**	**2017**	**2016**	**2015**
Adjusted assets	22,660.0	20,637.0	20,519.0	19,199.0	18,228.0
Customer loans (gross)	20,483.0	18,340.0	17,855.0	16,742.0	15,651.0
Adjusted common equity	1,486.0	1,414.0	1,291.0	858.0	816.0
Operating revenues	538.0	539.0	494.0	477.0	473.0
Noninterest expenses	350.0	348.0	314.0	278.0	264.0
Core earnings	122.0	140.0	155.7	136.0	138.0

NZ$--New Zealand dollar.

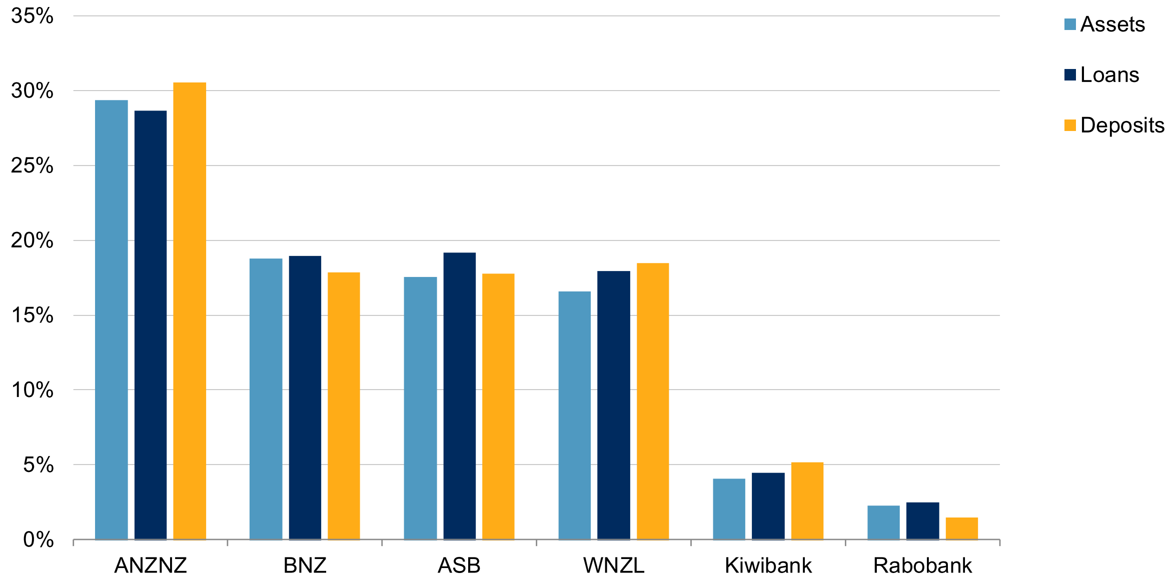
Business position: Domestic ownership provides point of difference to major banks

Kiwibank is New Zealand's largest (and fifth-largest overall) domestically owned bank. In our view, its 100% domestic ownership provides the bank with a point of difference from New Zealand's (Australian owned) major banks, and other smaller banks in New Zealand, which generally focus on a particular geography.

However, we consider that the New Zealand major banks, Bank of New Zealand (BNZ), Westpac New Zealand Ltd. (WNZL), ASB Bank Ltd., and ANZ Bank New Zealand Ltd. (ANZNZ), have greater pricing power and cost advantages relative to Kiwibank, afforded through economies of scale. Combined, these banks comprise about 85% of New Zealand banking system assets. In contrast, as of June 30, 2019, Kiwibank held a 7% share of residential mortgages and 5% share of customer deposits in New Zealand, up slightly from one year earlier.

Chart 1

Kiwibank Remains Fifth-Largest New Zealand Bank



Source: RBNZ Dashboard; June 2019.

In the fiscal year ended June 30, 2019, Kiwibank's distance from industry developments that affected larger players to a greater degree--including the RBNZ capital proposal, prudential culture and conduct reviews, and the fallout from the Australian Royal Commission--allowed it to grow its business well above system without taking on undue risk. Kiwibank's overall headline growth of 12% was slightly higher than growth in its core residential mortgage book and slightly lower than growth in its smaller small and midsize enterprise (SME) book.

Kiwibank's revenue stability continues to improve, in our view. Net interest income is now 83% of operating revenues, from about 75% over the past few years. This trend is consistent with other New Zealand bank peers with fee income generally in decline across the industry.

In fiscal 2019, Kiwibank's net interest margin (NIM) improved five basis points (bps) to 2.14%. While the majority of Kiwibank's interest-earning assets reprice within two years from the end of fiscal 2019, about 35% of its total assets will reprice after fiscal 2021. In addition, almost all interest-bearing liabilities reprice within one year. In our view, this allows Kiwibank's NIM to remain somewhat resilient in the face of recent RBNZ cash rate cuts, though we expect its NIM to moderate 5-10 bps in the coming 12-24 months and remain low in the medium term as benchmark rates remain low for an extended period. This is consistent with New Zealand's major banks.

We believe the RBNZ's capital proposal, if implemented in its current form, will not have a significant impact on the availability of credit in New Zealand. Nevertheless, we believe it could result in a change to the existing pricing of, and credit provision to, certain sectors or exposure types. However, we do not expect the capital proposal to result in any significant change to Kiwibank's residential lending-dominated loan book.

In our view, Kiwibank's corporate governance and risk management structures are adequate given the nature and extent of the bank's activities. Kiwibank's board comprises a majority independent directors and an independent chair. Management stability since 2018 has allowed Kiwibank to focus on its medium-term strategy, which includes a focus on digital transformation.

Table 2

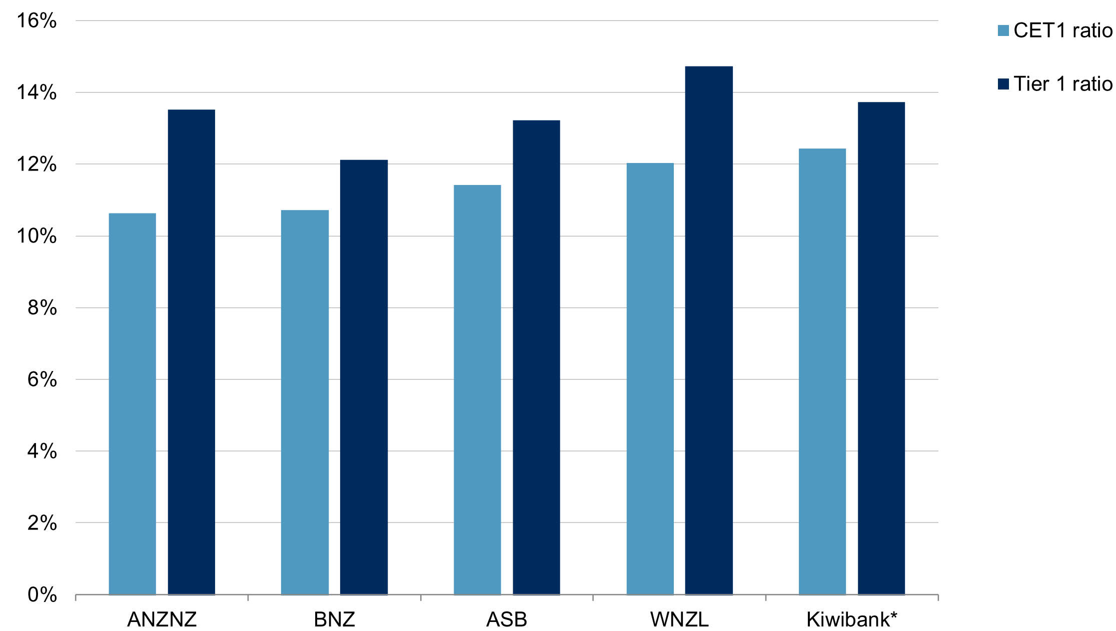
Kiwibank Ltd.--Business Position					
	--Year ended June 30--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Total revenues from business line (currency in millions)	538.0	539.0	494.0	477.0	473.0
Retail banking/total revenues from business line	67.1	64.9	66.6	65.0	65.5
Return on average common equity	6.4	7.3	3.5	12.1	13.6

Capital and earnings: Strong capital and solid earnings despite high cost-to-income compared with major bank peers

Through fiscal 2019, strong loan growth saw Kiwibank's regulatory capital adequacy ratios trend downward. Nevertheless, Kiwibank's 12.4% Common Equity Tier 1 (CET1) ratio (4.5% minimum), 13.7% Tier 1 ratio (6.0%), and 14.5% total capital ratio (8.0%--excluding 2.5% buffer) as of June 30, 2019 remain well above their respective current prudential minima.

Chart 2

Kiwibank's Regulatory Capital Ratios Remain In Line With Major Bank Peers



*Kiwibank reports credit risk weighted assets under the standardized approach, while other major banks report under the internal ratings based approach. Source: S&P Global Ratings.

We see the uncalled capital facility (UCF) as the support mechanism through which government support would be extended to Kiwibank, if required. Any capital injection to Kiwibank via the UCF would be through Kiwibank's immediate parent, KGHL. As such, we consider KGHL's RAC ratio relevant to determine Kiwibank's capital strength. KGHL includes Kiwibank and the broader (but small) wealth management and insurance businesses; Kiwibank comprises about 95% of KGHL's net assets and 90% of its revenues.

As of June 30, 2019, KGHL's RAC was 13.4%, accounting for our updated view of New Zealand's economic risk setting. We expect KGHL's RAC ratio to moderate to 10.5%-11.0% in the next two years on the back of strong loan growth. This level of capital remains accretive to Kiwibank's rating. We do not factor potential Kiwibank capital issuance pursuant to the RBNZ's capital proposals, as we are yet to gain clarity on final implementation, which is expected by the end of calendar 2019. However, we expect Kiwibank to manage its capital to a level consistent with our existing assessment over the medium term.

Our assessment of Kiwibank's capitalization incorporates our view of the economic risks facing New Zealand's financial system through the risk weights we apply to the bank's credit risk exposures. We believe the recent slowdown in house prices and credit growth has reduced some of these risks. Consequently, we now apply lower risk weights in calculating Kiwibank's RAC ratio.

Looking forward, our view of the decreasing risks to New Zealand's banking system help buoy Kiwibank's RAC ratio despite a maturing hybrid instrument and strong expected loan growth. We expect Kiwibank to call its perpetual capital bond at its first call date in May 2020. The instrument classifies as additional Tier 1 regulatory capital and intermediate equity content under our hybrid methodology. As such, including internal capital generation and Kiwibank's proposed dividend, we expect the group's capital base to fall by about NZ$65 million in fiscal 2020, excluding any system infrastructure investment. In addition, we expect loan (and credit risk-weighted asset) growth to remain in the high single digits, but normalize toward system in fiscal 2021.

Scenario analysis--RBNZ capital proposal

In the scenario that the RBNZ proceeds with the implementation of its capital proposal in its current form, we estimate Kiwibank would require about a 10% increase in its Tier 1 capital base, from June 2019 levels, to meet the proposed regulatory minimum. Our estimates apply the same methodology outlined in our initial commentary on the RBNZ proposal (see "Higher Capital Requirements For New Zealand's Major Banks Could Create Significant Imposts For Their Australian Parents," published Feb. 24, 2019), incorporating updated financial disclosures.

Despite the potential increase in Kiwibank's required capital levels, we believe Kiwibank is better placed than its major bank peers, which would have to increase their Tier 1 capital levels by about 45% on average from fiscal 2019 levels.

We expect Kiwibank's earnings growth to remain subdued--in line with the broader system. We expect NIM compression across the industry in the coming 12-24 months following the RBNZ's recent cash rate cuts, and Kiwibank is no exception. Kiwibank's 2.14% NIM as of June 30, 2019, is in line with the New Zealand major bank average.

However, we expect solid loan growth to offset the impact of margin pressure and falling noninterest income. As such, we expect revenue growth to remain in the mid-single digit over the next two years. At the same time, we expect Kiwibank's costs to remain elevated relative to income. Kiwibank's cost-to-income ratio (CTI) of 65%, as of June 30, 2019, is well above the major bank peer average, which is closer to 35%. We expect Kiwibank's structurally high CTI to persist in the coming two to three years, particularly as it continues to invest in the digital development of its business.

Nevertheless, we expect Kiwibank's earnings will be sufficient to cover our estimate of its through-the-cycle credit losses based on its credit risk exposures. In addition, given our expectation of New Zealand's macroeconomic conditions, we expect actual losses to be substantially lower than our expected through-the-cycle losses.

We expect Kiwibank's mid-single-digit fiscal 2019 return on average equity (ROE) to remain at similar levels in the coming two years. While this remains below the fiscal 2019 mid-teen ROEs achieved by New Zealand's major banks, this difference could narrow in the medium term in the event that the RBNZ's capital proposals are implemented in their current form. Lastly, we expect Kiwibank to pay about 20% of its post-tax profits to its parent and largest shareholder, NZ Post, in the coming two years.

Table 3

Kiwibank Ltd.--Capital And Earnings

	--Year ended June 30--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Tier 1 capital ratio	13.7	14.8	12.3	10.7	11.0
Adjusted common equity/total adjusted capital	90.9	90.5	100.0	85.4	84.7

Table 3

Kiwibank Ltd.--Capital And Earnings (cont.)					
	--Year ended June 30--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Net interest income/operating revenues	82.7	76.3	74.5	78.2	76.3
Fee income/operating revenues	16.7	22.1	23.9	21.2	22.6
Market-sensitive income/operating revenues	0.6	1.7	1.6	0.6	1.1
Noninterest expenses/operating revenues	65.1	64.6	63.6	58.3	55.8
Preprovision operating income/average assets	0.9	0.9	0.9	1.1	1.2
Core earnings/average managed assets	0.5	0.6	0.7	0.7	0.7

Risk position: Despite peer-leading asset quality and a conservative loan book, operational risk remains elevated

We believe Kiwibank remains exposed to incremental operational risk over and above peers, and in excess of that which we capture in our operational risk capital charge. In 2018, Kiwibank announced the shelving of its core banking implementation that saw it recognize about NZ$100 million in impairments over the course of the project. While technology-related operational risk continues to abate, in our view, such risks remain elevated, particularly relative to peers.

Following Kiwibank's unsuccessful core banking modernization project, we expect any modifications the bank may make in the future would be off-the-shelf products without significant customization. We would view this as consistent with a bank of Kiwibank's limited complexity and level of cost flexibility.

We consider Kiwibank's risk management framework and executive management's experience and expertise adequate to manage its limited complexity domestic operations.

In fiscal 2019, while Kiwibank's headline loan growth was about twice system, the majority of growth was in its dominant housing lending book--which continues to comprise about 90% of the bank's exposures. Notably, Kiwibank's business lending grew about 16% and is now over 12% of the bank's regulatory credit risk-weighted assets, from less than 10% as of June 30, 2018. While we expect SME lending to continue to grow above-system in fiscal 2020, we do not expect such exposures to grow substantially above 10% of total loans. Kiwibank's other segment exposures--including consumer and agriculture--grew strongly in fiscal 2019, but from a very small base.

Kiwibank's headline asset quality remains a strength relative to New Zealand's major bank peers. Based on RBNZ data as of June 30, 2019, Kiwibank's headline nonperforming exposures are 0.1% of total loans. Using the same dataset, about 0.5% of New Zealand's major bank peers' total exposures are nonperforming, on average (0.3% of housing exposures are nonperforming).

As of June 30, 2019, Kiwibank's net write-offs were about 4 bps of customer loans--or 7.5% of the bank's through-the-cycle credit losses. We expect this to remain stable in the coming 24 months. On average, New Zealand's major banks have slightly higher (but still low on a global basis) net write-offs to loans. In addition, Kiwibank's net new provisions remain consistent with its very low, better-than-peer write-off experience, at 6 bps of loans. This is a slight increase on fiscal 2018, owing to the one-off adoption of IFRS9.

Finally, we consider Kiwibank's residential mortgage exposures to have a reasonable buffer against potential losses that could be associated with housing price declines. Less than 10% of Kiwibank's residential mortgage exposures have a loan-to-value ratio in excess of 80%, in line with the New Zealand banking system and major bank peers.

Table 4

Kiwibank Ltd.--Risk Position

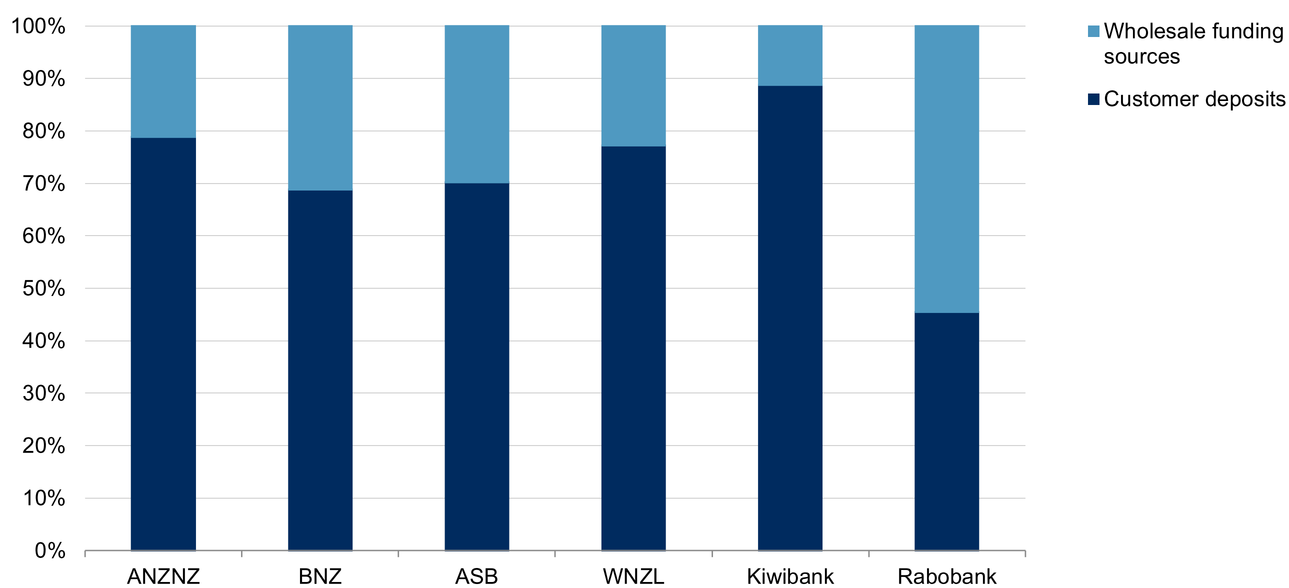
	--Year ended June 30--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Growth in customer loans	11.7	2.7	6.6	7.0	6.5
Total managed assets/adjusted common equity (x)	16.3	15.7	17.1	23.6	23.6
New loan loss provisions/average customer loans	0.1	0.0	(0.0)	0.1	0.1
Net charge-offs/average customer loans	0.0	0.0	0.0	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	0.1	0.1	0.1	0.1	0.2
Loan loss reserves/gross nonperforming assets	222.2	163.6	210.5	240.9	155.9

Funding and liquidity: Mostly deposit-funded and adequate liquid asset cover of short-term wholesale liabilities

We assess Kiwibank's funding in line with the average funding base in New Zealand. Household deposits dominate Kiwibank's funding base; they comprise about 90% of the bank's funding. This increased marginally through fiscal 2019, lifted by customer deposit growth of 13% (or around three times the system). Such strong growth contradicts the overall experience of New Zealand's banking system, which has seen slowing deposit growth in the past 12 months.

Chart 3

Deposits Dominate Kiwibank's Funding Sources



Source: S&P Global Ratings.

We attribute some of the system's slowing deposit growth to the recent cash rate cuts that have made bank deposits less attractive to investors compared with other potentially higher risk investments. While Kiwibank has so far been immune to these developments, we do not foresee double-digit deposit growth nor do not expect any material change to Kiwibank's deposit-dominated funding in the coming two years.

In our view, Kiwibank's lack of reliance on wholesale funding (about 10% as of June 30, 2019) relative to its major bank peers (on average about 25%) is offset by its larger peers' broader and deeper funding franchise. We consider Kiwibank a price taker in domestic deposit markets, and we believe that if the major banks were forced to more aggressively compete for deposits because of a dislocation in wholesale funding markets, they could price Kiwibank and other smaller players out of the market. On the other hand, we consider Kiwibank's funding base composition and its funding market franchise stronger than peer Rabobank New Zealand Ltd. (RNZL). In the past few years, wholesale liabilities consistently comprised about half of RNZL's funding base, which we consider exposes RNZL to a greater degree of risk to a change in funding market sentiment.

In addition, as of June 30, 2019, Kiwibank's loans (net of loss reserves), were about 1.1x deposits--compared to RNZL's ratio that is in excess of 2x deposits. Kiwibank's loan-deposit ratio has also consistently been better than major bank peers, whose net loans are on average about 1.3x deposits. We expect Kiwibank's key funding metrics to remain better than that of the major banks over the next two years.

As of June 30, 2019, Kiwibank had a:

- Stable funding ratio of 99% (New Zealand major bank peer average is 97%);
- Long-term funding ratio of 95% (91%); and
- Short-term wholesale funding to total funding base of 5.6% (10.1%).

We believe Kiwibank has sufficient on-balance sheet liquidity to manage six months of wholesale funding market stress without a significant dependence on central bank support. Kiwibank's NZ$1.5 billion liquid assets (excluding internally securitized mortgages) as of June 30, 2019, covers about 1.1x its current debt liabilities due in June 2020. This gives us confidence the bank can manage a short-term market stress. In addition, we do not foresee any unusual liquidity needs for Kiwibank in the next two years.

Within its liquid asset portfolio, Kiwibank holds NZ$855 million of unencumbered internal residential mortgage-backed securities available as collateral for borrowing from the RBNZ, NZ$398 million cash and central bank deposits, and NZ$470 million in New Zealand government securities.

In addition, as a prudentially regulated bank in New Zealand, Kiwibank is required to maintain a core funding ratio (CFR)--a measure of funding stability's sufficiency against its gross loans outstanding--above 75%. Kiwibank has consistently maintained its CFR above 80%. As of June 30, 2019, Kiwibank's CFR was 89%, better than the 86% major bank average.

Table 5

Kiwibank Ltd.--Funding And Liquidity

	--Year-ended June 30--				
(%)	**2019**	**2018**	**2017**	**2016**	**2015**
Core deposits/funding base	88.8	86.6	85.4	85.0	82.3
Customer loans (net)/customer deposits	112.1	113.2	111.5	112.9	113.5
Long-term funding ratio	94.8	94.6	94.5	94.5	93.7
Stable funding ratio	99.1	100.1	101.6	100.5	101.7
Short-term wholesale funding/funding base	5.6	5.9	5.8	5.8	6.6
Broad liquid assets/short-term wholesale funding (x)	1.2	1.3	1.6	1.5	1.5
Net broad liquid assets/short-term customer deposits	1.0	1.9	4.3	3.2	4.4
Short-term wholesale funding/total wholesale funding	46.7	41.4	40.1	36.6	35.8
Narrow liquid assets/3-month wholesale funding (x)	2.8	2.6	N/A	N/A	N/A

N/A--Not applicable.

Table 6

Kiwi Group Holdings Limited--Risk Adjusted Capital Framework Data

(Mil. NZ$)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	1,772.7	6.2	0.3	49.0	2.8
Of which regional governments and local authorities	21.2	6.2	29.3	0.8	3.6
Institutions and CCPs	483.5	146.8	30.4	135.5	28.0
Corporate	1,423.0	1,399.5	98.3	1,721.0	120.9
Retail	19,698.3	7,999.8	40.6	9,597.4	48.7
Of which mortgage	19,267.2	7,568.7	39.3	9,034.0	46.9
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	217.2	180.0	82.9	364.6	167.8
Total credit risk	23,594.6	9,732.2	41.2	11,867.4	50.3
Credit valuation adjustment					
Total credit valuation adjustment	--	34.4	--	0.0	--
Market Risk					
Equity in the banking book	0.0	0.0	0.0	0.0	0.0
Trading book market risk	--	725.0	--	1,087.5	--
Total market risk	--	725.0	--	1,087.5	--
Operational risk					
Total operational risk	--	1,374.3	--	1,226.9	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	11,865.9	--	14,181.8	100.0
Total Diversification/ Concentration Adjustments	--	--	--	5,093.8	35.9

Table 6

Kiwi Group Holdings Limited--Risk Adjusted Capital Framework Data (cont.)					
RWA after diversification	--	11,865.9	--	19,275.6	135.9

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	0.0	0.0	1,585.0	11.2
Capital ratio after adjustments‡	0.0	0.0	1,585.0	8.2

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Note: the risk weights applied in calculating the RAC ratio in this table are consistent with our economic risk score '5'. In August, we changed our view of the economic risks facing New Zealand's banks to '4'. However, our RAC ratio for Kiwibank is as at June 30, 2019, when our economic risk score was '5'. Sources: Company data, S&P Global Ratings.

Support: As a GRE, external support will be forthcoming if required

Our long-term issuer credit rating on Kiwibank incorporates three notches of uplift above the bank's SACP of 'bbb'. The uplift reflects our belief that Kiwibank is highly likely to receive extraordinary support from the New Zealand government, if needed. This is because we consider that Kiwibank plays an important role to the New Zealand government and that the bank has a very strong link to the government because of its indirect ownership by the government.

Kiwibank continues to benefit from a NZ$300 million UCF, via its parent KGHL, charged at a below-market interest rate. We believe this provides further evidence of the New Zealand government's intent to support Kiwibank, if required--as well as a mechanism through which the government can provide support.

In addition, Kiwibank's ownership structure through KGHL remains closely tied to New Zealand GREs. NZ Post holds a 53% stake in Kiwibank through KGHL, the New Zealand Superannuation Fund (a New Zealand sovereign wealth fund, 25%) and the Accident Compensation Corp. (22%) round out Kiwibank's government-related owners. As such, we consider that Kiwibank remains ultimately owned by the New Zealand government.

However, we believe Kiwibank is insulated from its majority shareholder NZ Post. We consider Kiwibank's creditworthiness largely independent from that of NZ Post, and that NZ Post would only have an impact on Kiwibank's creditworthiness if its creditworthiness were to materially deteriorate. This is because we expect the RBNZ would prevent NZ Post's unfettered access to Kiwibank's capital and cash flows, especially given the RBNZ's capital proposals--which we expect would require Kiwibank to increase its capital base. Consequently, we may assign Kiwibank a rating of up to three notches above our view of the group credit profile of the NZ Post group.

We rate Kiwibank's funding vehicle Kiwi Capital Funding Ltd.'s (KCFL) junior subordinated hybrid instrument 'BB-'. We notch this instrument from the 'bbb' unsupported group credit profile on KGHL--that is, the group's credit profile excluding the benefits we ascribe to Kiwibank's role and link as a GRE. This is because we consider the New Zealand government unlikely to provide timely financial support for subordinated debt instruments and perpetual capital notes that KCFL issues.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	**bbb**	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 13, 2019)*

Kiwibank Ltd.	
Issuer Credit Rating	A/Positive/A-1
Certificate Of Deposit	
Local Currency	A-1

Ratings Detail (As Of November 13, 2019)*(cont.)	
Issuer Credit Ratings History	
29-Oct-2018	A/Positive/A-1
28-Feb-2017	A/Stable/A-1
05-Apr-2016	A+/Watch Neg/A-1
16-Nov-2015	A+/Stable/A-1
Sovereign Rating	
New Zealand	
Foreign Currency	AA/Positive/A-1+
Local Currency	AA+/Positive/A-1+
Related Entities	
Housing New Zealand Corp.	
Issuer Credit Rating	
Foreign Currency	AA/Positive/A-1+
Local Currency	AA+/Positive/A-1+
Housing New Zealand Ltd.	
Issuer Credit Rating	
Foreign Currency	AA/Positive/A-1+
Local Currency	AA+/Positive/A-1+
Commercial Paper	
Local Currency	A-1+
Senior Unsecured	AA+
Kiwi Capital Funding Ltd.	
Junior Subordinated	BB-
New Zealand	
Issuer Credit Rating	
Foreign Currency	AA/Positive/A-1+
Local Currency	AA+/Positive/A-1+
Transfer & Convertibility Assessment	AAA
Commercial Paper	
Foreign Currency	A-1+
Senior Unsecured	AA
Senior Unsecured	AA+
Short-Term Debt	A-1+
New Zealand Local Government Funding Agency Ltd.	
Issuer Credit Rating	
Foreign Currency	AA/Positive/A-1+
Local Currency	AA+/Positive/A-1+
Senior Unsecured	AA+
New Zealand Post Group Finance Ltd.	
Subordinated	BB+/Watch Neg
New Zealand Post Ltd.	
Issuer Credit Rating	A+/Watch Neg/A-1

Ratings Detail (As Of November 13, 2019)*(cont.)	
Commercial Paper	
Local Currency	A-1/Watch Neg
Senior Unsecured	A+/Watch Neg

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.