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Research Update:

Kiwibank Ltd. Ratings Affirmed At 'A+ / A-1'; Outlook Revised To Stable Following Similar Outlook Revision On Parent

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Research Update:

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Overview

- We have affirmed our 'A+/A-1' issuer credit ratings on Kiwibank Ltd.'s parent, New Zealand Post Ltd. (NZ Post), and revised the outlook on the parent to stable, from negative.
- The outlook revision on NZ Post reflects the material improvement in NZ Post's financial risk profile over the past 12 months, which has offset pressure on the group's credit profile from ongoing structural revenue erosion in the core mail business.
- As the ratings on Kiwibank are equalized with those on its parent, we have also affirmed the ratings on Kiwibank, and revised the outlook on the long-term rating to stable from negative.
- The ratings on Kiwibank benefit from an unconditional guarantee from NZ Post.

Rating Action

On Nov. 17, 2015, Standard & Poor's Ratings Services affirmed its 'A+/A-1' issuer credit ratings on Kiwibank Ltd. At the same time, the outlook on the long-term rating was revised to stable from negative, following a similar revision of the outlook on Kiwibank's parent company, New Zealand Post Ltd. (NZ Post; A+/Stable/A-1).

Rationale

The outlook revision mirrors the change in the outlook on the long-term rating on NZ Post to stable from negative. Standard & Poor's equalizes its ratings on Kiwibank with those on the bank's parent, NZ Post, reflecting the benefit of NZ Post's unconditional guarantee for all of the bank's senior obligations. We believe that there are no significant changes in rating factors, other than the change in the outlook of the bank's parent, that affect our rating assessment of Kiwibank.

Outlook

The outlook reflects that on Kiwibank's parent, NZ Post. We expect the ratings on Kiwibank to remain equalized with those on NZ Post unless there is a significant dilution or withdrawal of the guarantee provided by the parent.

We expect to lower the ratings on Kiwibank by one notch if the same rating

action occurs for its parent NZ Post. The most likely triggers for a downgrade of NZ Post's rating are if:

- The group is unable to sustain its "minimal" financial risk profile, which would include debt to EBITDA (including dividends from Kiwibank) sustained above 1.5x, or
- Ineffective restructuring of the core mail operations causes sustained operating losses that undermine the overall profitability of the group.

Although less likely, downward ratings pressure on NZ Post could also arise if:

- We considered there to be a reduced likelihood that the New Zealand government would provide timely and sufficient extraordinary support to NZ Post; or
- We lowered our stand-alone credit profile assessment on Kiwibank.

The most likely scenario for Kiwibank contributing to rating pressure on NZ Post would be a weakening in bank's business profile. We believe the bank's business would be under pressure if there were a prolonged period of slower organic growth and reducing net interest margins relative to the New Zealand major banks and system average, which could be indicative of--among other things--a structural decline in Kiwibank's business franchise.

Although a one-notch downgrade of the NZ Post rating will be mirrored in the Kiwibank rating, the latter is insulated from any further downgrade in the parent rating, all other things remaining equal for Kiwibank. This is because we consider that Kiwibank has a "high" likelihood of receiving extraordinary support from the New Zealand government, reflecting the bank's "very strong" link and "important" role to the government.

Therefore, the rating on Kiwibank can factor in external support from either its parent or extraordinary support from the government, whichever is higher. While the rating on the bank currently benefits from parent support (because this offers the highest rating uplift benefit), external support from the two sources would provide equal rating uplift if the rating on NZ Post is lowered by one notch. If there is any further deterioration in the parent rating, the uplift in the bank rating due to extraordinary government support would exceed that from the parent support, and thus sufficient to maintain the long-term issuer credit rating on the bank at 'A', all other things remaining equal.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Commercial Paper I: Banks, March 23, 2004
- Guarantee Criteria--Structured Finance, May 7, 2013

Related Research

- New Zealand Post Ltd. Outlook Revised To Stable On Strengthening Financial Profile, 'A+/A-1' Ratings Affirmed, Nov. 17, 2015

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Kiwibank Ltd. Counterparty Credit Rating	A+/Stable/A-1	A+/Negative/A-1

Not Rated Action

	To	From
Kiwi Capital Securities Ltd. Preference Stock	NR	BB

Ratings Affirmed

Kiwibank Ltd. Senior Unsecured	A+
Subordinated	BB+
Certificate Of Deposit	A-1
Commercial Paper	A-1

Kiwi Capital Funding Ltd. Subordinated	BB+
Junior Subordinated	BB-

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