

UDC Finance Ltd.

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UDC Finance Ltd.

Major Rating Factors

Strengths:

- Ownership by ANZ National Bank Ltd.
- Sound business position supported by its good brand
- Good funding and liquidity position
- Sound capitalization

Weaknesses:

- Heightened industry pressures
- Asset quality is susceptible to an inherently higher-credit risk profile
- Earnings reduced by increase in provisions

Counterparty Credit Rating

AA/Stable/A-1+

Rationale

The counterparty credit ratings on UDC Finance Ltd. (UDC) benefit from UDC's core status with its 100% owner, ANZ National Bank Ltd. (ANZ National; AA/Stable/A-1+), which is the New Zealand operation of Australia and New Zealand Banking Group Ltd. (ANZ Group; AA/Stable/A-1+). Although UDC is not explicitly guaranteed by ANZ National, it receives systems, practices, and processes support from the broader ANZ group. UDC also operates in business segments that are compatible with ANZ National and attracts a loyal debenture-funding base, of which a material proportion is also ANZ National customers. At year-ended September 2009, UDC had total assets of NZ\$1.9 billion, making it one of the largest asset financiers and debenture issuers in New Zealand. Even though UDC represents only a small percentage of ANZ National's total equity of NZ\$10.3 billion, we consider UDC to be a core subsidiary of ANZ National, therefore we have equalized the UDC rating with that on the parent.

On a stand-alone basis, UDC's credit profile benefits from its sound business position as a leading asset financier in New Zealand. UDC's asset-writing and debenture issuance has benefited from its good brand and relatively broad distribution platform, with access to ANZ National's branch network across the country. Also supporting the rating is its sound capital adequacy position. Moderating factors include an inherently higher credit-risk profile as an asset financier that is susceptible to New Zealand's current weak industry environment, and a weak operating performance in fiscal 2009.

UDC's business profile is sound, underpinned by its leading market position and its good brand. Although the company provides finance to the retail sector and a wide range of commercial industries, UDC's loan portfolio is reasonably diversified by industry. Although UDC is better placed than many peers to grow its loan book, tightening credit conditions and reduced investor appetite are likely to remain key challenges.

The company's capital adequacy is sound and consistent with its risk profile. A contraction of the loan portfolio, no dividend payments, and to a lesser extent, UDC's earnings, has contributed to an improvement in its capitalization ratio. UDC's adjusted total equity to adjusted assets is 12.3% in fiscal 2008 compared with 11.2% in the previous year (and less than 10% in previous years). UDC's absolute capital size of NZ\$231 million is sound compared with domestic nonbank deposit takers' but modest by international standards.

In line with our expectations, UDC's asset quality has deteriorated because of a downturn in the credit cycle. However, we continue to view its asset quality as sound because its experience has been consistent with our opinion that, as an asset financier, UDC has an inherently high-credit risk profile. Nonperforming assets (NPAs) have increased to 4.1% in fiscal 2009 from 2.5% in the previous year, but UDC has kept its net charge-offs ratio within a consistent 0.56%-1.4% range in the past five years. We expect asset quality indicators will improve as the economy starts to rally and UDC is able to grow its loan portfolio.

UDC's profitability declined materially in fiscal 2009 due to an increase in provisions to NZ\$35 million in fiscal 2009 from NZ\$22 million in the previous year. As a result, profit after tax declined to NZ\$3 million in fiscal 2009 from NZ\$28 million in the previous year. However, any future improvement in profitability will depend on UDC implementing loan-growth initiatives and managing interest margins. While lower than we expected, the net interest margin of 3.5% in fiscal 2009 is a good result.

Short-term credit factors

The short-term rating on UDC is 'A-1+'. At Sept. 30, 2009, UDC's on-balance-sheet liquidity position was low with a liquid-assets-to-funding-liabilities ratio of 1.7%. However, UDC's liquidity position benefits from a NZ\$500 million committed facility from ANZ National (NZ\$50 million utilized). This is an increase from the NZ\$100 million of previous years. Liquidity is managed on a group basis, and Standard & Poor's believes that support would be forthcoming from ANZ Group if UDC were to experience liquidity difficulties.

Being 100% self-funded, UDC does not rely on funding support from related parties. Although UDC's funding profile is concentrated in New Zealand's retail debenture market, it is considered sound as it enjoys loyal support from an older demographic base. Evidence of this is UDC's solid retention rate of between 65%-70% in a typical month.

Outlook

The stable outlook reflects that on its ultimate parent, ANZ Group, and the close integration with its immediate parent ANZ National. Were ANZ Group to reduce its commitment to asset finance, or to UDC, we would lower our opinion on UDC's importance to the group's future strategy. This would likely lower the rating, potentially by more than one notch. In our view, ANZ's strategic commitment to UDC could come into question if UDC were unable to turn around its profitability and meet ANZ Group's risk adjusted benchmarks.

On a stand-alone basis the stable outlook on UDC reflects our expectation that UDC will continue to soundly manage risks, underpinned by a predominantly organic growth strategy. Also incorporated in the outlook is our expectation that UDC will be able to turn around its profitability in the medium term, while maintaining its current asset-quality position.

Factors that would solidify UDC's stand-alone credit profile include a material improvement in profitability such that it is sustainable and supported by a steady loans growth. Equally important would be an improvement in asset quality indicators such that NPAs to gross loans is comparable with higher rated peers' including Australian building societies and regional banks.

Conversely, the stand-alone credit profile may weaken if there were a significant deterioration in asset quality and an unexpected decline in capitalization. In addition, if UDC is unable to turn around its earnings performance in fiscal 2010 its stand-alone credit profile could weaken.

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Table 1

UDC Finance Ltd. Asset Quality, Funding, And Liquidity Ratios					
	--Year-ended Sept. 30 --				
%	2009	2008	2007	2006	2005
Gross nonperforming assets/customer loans plus other real estate owned	4.1	2.5	1.6	1.8	2.0
Net nonperforming assets/customer loans plus other real estate owned	1.0	0.0	(0.5)	(0.9)	1.0
Loan loss reserves/gross nonperforming assets	75.9	98.7	131.6	150.8	49.8
Loan loss reserves/customer loans	3.1	2.5	2.1	2.7	1.0
New loan loss provisions/average customer loans	1.9	1.2	(0.1)	0.1	N/A
Net charge-offs/average customer loans	1.4	0.5	0.3	0.7	N/A
Customer deposits/funding base	0.0	0.0	0.0	0.0	0.0
Total loans/customer deposits	N.M.	N.M.	N.M.	N.M.	N.M.
Total loans/customer deposits plus long-term funds	385.7	434.8	527.3	465.2	385.2
Customer loans (net)/assets (adjusted)	97.5	98.0	88.2	68.0	73.2

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 2

UDC Finance Ltd. Profitability Ratios					
	--Year-ended Sept. 30 --				
%	2009	2008	2007	2006	2005
Net interest income/average earning assets	3.5	4.0	4.0	3.8	N/A
Net interest income/revenues	99.6	96.2	96.5	97.0	51.8
Fee income/revenues	0.0	2.8	2.3	2.9	5.1
Market-sensitive income/revenues	0.0	0.0	0.0	0.0	3.8
Noninterest income/revenues	0.4	3.8	3.5	3.0	48.2
Personnel expense/revenues	23.3	22.1	23.3	27.4	23.7
Noninterest expenses/revenues	50.0	40.1	40.7	47.0	41.6
Net operating income before provision/revenues	50.0	59.9	59.3	53.0	58.4
New loan loss provisions/revenues	51.4	25.6	(1.2)	1.4	10.1
Net operating income before loan loss provisions/loan loss provisions	97.2	234.3	(5,137.2)	3,690.7	578.2
Net operating income after loan loss provisions/revenues	(1.4)	34.3	60.4	51.5	48.3
Pretax profit/revenues	3.3	43.9	166.7	56.3	47.0
Tax/pretax profit	(19.6)	25.2	13.0	30.4	34.2
Core earnings/revenues	1.0	25.8	38.8	35.9	32.2
Core earnings/average adjusted assets	0.0	1.1	1.4	1.1	N/A
Noninterest expenses/average adjusted assets	1.8	1.7	1.5	1.5	N/A
Core earnings/average risk-weighted assets	N.M.	N.M.	N.M.	2.3	1.6
Core earnings/average adjusted common equity	0.3	10.4	16.7	13.9	17.6
Pretax profit/average common equity (%)	1.0	17.6	71.3	21.8	N/A

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 3

UDC Finance Ltd. Capital Ratios					
%	--Year-ended Sept. 30--				
	2009	2008	2007	2006	2005
Adjusted common equity/risk assets (%)	N.M.	N.M.	N.M.	N.M.	8.9
Tier 1 capital ratio					
Adjusted total equity/adjusted assets	12.3	11.2	9.6	7.6	8.8
Adjusted total equity/managed assets	12.3	11.2	9.6	7.6	8.8
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	15.4	13.7	12.8	13.6	12.5
Common dividend payout ratio	0.0	0.0	84.2	101.2	113.3

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

UDC Finance Ltd. Summary Balance Sheet					
Mil. NZ\$	--Year-ended Sept. 30--				
	2009	2008	2007	2006	2005
Assets					
Cash and money market instruments	27.2	22.7	217.5	220.3	156.2
Securities	0.0	0.0	0.0	0.0	0.0
Trading securities (marked to market)		0.0	0.0	0.0	0.0
Nontrading securities	0.0	0.0	0.0	0.0	0.0
Mortgage-backed securities included above	0.0	0.0	0.0	0.0	0.0
Loans to banks (net)	0.0	0.0	0.0	0.0	0.0
Gross receivables, nui	1,888.5	2,041.7	1,860.8	1,654.2	1,820.0
Loan loss reserves	59.3	51.2	39.2	44.9	18.2
Net receivables	1,829.2	1,990.5	1,821.6	1,609.3	1,801.7
Earning assets	1,915.7	2,064.4	2,078.3	1,874.6	1,976.2
Intangibles (nonservicing)	1.0	1.5	1.9	1.7	0.0
Interest-only strips					
Fixed assets	0.3	0.5	0.8	1.1	2.9
Derivatives credit amount	0.1	N/A	0.1	N/A	N/A
All other assets	19.8	18.1	24.6	534.8	500.2
Total assets	1,877.6	2,033.3	2,066.6	2,367.2	2,461.0
Intangibles (nonservicing)	1.0	1.5	1.9	1.7	0.0
Minus insurance statutory funds	0.0	0.0	0.0	0.0	0.0
Adjusted assets	1,876.6	2,031.8	2,064.6	2,365.5	2,461.0
Repurchase agreements					
Other borrowings	1,586.7	1,733.7	1,786.3	2,077.4	2,131.7
Other other borrowings	0.0	0.0	0.0	0.0	0.0
Other credit reserves					
Other liabilities	59.0	70.3	79.3	107.6	120.7
Total liabilities	1,645.7	1,804.1	1,865.6	2,185.0	2,252.5
Total shareholders' equity	231.9	229.2	201.0	182.1	208.6

Table 4

UDC Finance Ltd. Summary Balance Sheet (cont.)					
Minority interest-equity					
Common shareholders' equity (reported)	231.9	229.2	201.0	182.1	208.6
Share capital and surplus	20.8	20.8	20.8	20.8	20.8
Revaluation reserve					
Retained profits	211.1	208.4	180.2	161.4	187.8
Other equity					
Total liabilities and equity	1,877.6	2,033.2	2,066.6	2,367.2	2,461.0

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 5

UDC Finance Ltd. Profit And Loss					
	--Year-ended Sept. 30 --				
Mil. NZ\$	2009	2008	2007	2006	2005
Net interest income	68.7	82.7	79.0	73.4	59.1
Interest income	198.9	229.9	222.6	221.9	195.4
Interest expense	130.2	147.1	143.6	148.5	136.3
Operating noninterest income	0.3	3.2	2.9	2.3	55.0
Fees and commissions	0.0	2.4	1.9	2.2	5.8
Other market-sensitive income	N/A	N/A	N/A	N/A	4.4
Other noninterest income	0.3	0.8	1.0	0.1	44.8
Operating revenues	69.0	86.0	81.9	75.7	114.1
Noninterest expenses	34.5	34.5	33.4	35.6	47.5
Personnel expenses	16.1	19.0	19.1	20.7	27.1
Other general and administrative expense	18.2	15.2	13.9	14.5	19.8
Net operating income before loss provisions	34.5	51.5	48.5	40.1	66.6
Credit loss provisions (net new)	35.5	22.0	(0.9)	1.1	11.5
Net operating income after loss provisions	(1.0)	29.5	49.5	39.0	55.1
Nonrecurring/special income	3.7	8.7	87.4	3.6	0.0
Nonrecurring/special expense	N/A	0.0	0.0	0.0	0.0
Amortization of intangibles	0.5	0.5	0.4	0.0	1.4
Pretax profit	2.2	37.8	136.5	42.6	53.7
Tax expense/credit	(0.4)	9.5	17.7	13.0	18.3
Net income (before minority interest)	2.7	28.2	118.8	29.6	35.3
Net income before extraordinaries	2.7	28.2	118.8	29.6	35.3
Net income after extraordinaries	2.7	28.2	118.8	29.6	35.3

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Ratings Detail (As Of December 30, 2009)***UDC Finance Ltd.**

Counterparty Credit Rating	AA/Stable/A-1+
Senior Secured (1 Issue)	AA
Subordinated (1 Issue)	AA-

Ratings Detail (As Of December 30, 2009)* (cont.)	
Counterparty Credit Ratings History	
21-Feb-2007	AA/Stable/A-1+
08-Nov-2006	AA-/Watch Pos/A-1+
26-Mar-2002	AA-/Stable/A-1+
Sovereign Rating	
New Zealand	
<i>Foreign Currency</i>	AA+/Stable/A-1+
<i>Local Currency</i>	AAA/Stable/A-1+
Related Entities	
ANZ National Bank Ltd.	
Issuer Credit Rating	AA/Stable/A-1+
Bank Fundamental Strength Rating	
<i>Local Currency</i>	B+
Certificate Of Deposit	AA/A-1+
Commercial Paper	
<i>Foreign Currency</i>	A-1+
Senior Unsecured (2 Issues)	A-1+
Senior Unsecured (27 Issues)	AA
Senior Unsecured (8 Issues)	AA+
Senior Unsecured (2 Issues)	AAA
Short-Term Debt (1 Issue)	A-1+
Subordinated (1 Issue)	A+
Subordinated (4 Issues)	AA-
ANZ National (Int'l) Ltd.	
Senior Unsecured (2 Issues)	AA
Short-Term Debt (1 Issue)	A-1+
Australia and New Zealand Banking Group Ltd.	
Issuer Credit Rating	AA/Stable/A-1+
Bank Fundamental Strength Rating	
<i>Local Currency</i>	A
Certificate Of Deposit	AA/A-1+
Commercial Paper	
<i>Foreign Currency</i>	A-1+
Junior Subordinated (3 Issues)	A+
Preference Stock (2 Issues)	A+
Preferred Stock (1 Issue)	A+
Preferred Stock Convertible (1 Issue)	A+
Senior Unsecured (220 Issues)	AA
Short-Term Debt (1 Issue)	A-1+
Subordinated (25 Issues)	AA-
Subordinated (1 Issue)	AA-/A+
Esanda Finance Corp. Ltd.	
Issuer Credit Rating	AA/Stable/A-1+

Ratings Detail (As Of December 30, 2009)***(cont.)**

Commercial Paper

Local Currency

A-1+

Senior Secured (1 Issue)

A-1+

Senior Secured (1 Issue)

AA

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