Research Update:

Australia and New Zealand Banking Group Outlook Revised To Negative Following Sovereign Action; Ratings Affirmed

April 8, 2020

Overview

- On April 8, 2020, we revised the outlook on our long-term issuer credit rating on Australia to negative from stable to reflect a substantial deterioration in the sovereign's fiscal headroom at the 'AAA' rating level.
- A lower rating on the sovereign would reflect slightly reduced financial capacity to provide timely financial support to ANZ and other systemically important institutions, if needed.
- We are revising our outlook on ANZ to negative from stable, and affirming our 'AA-' long-term and 'A-1+' short-term ratings on the bank.
- The negative outlook reflects a one-in-three likelihood that we will lower our long-term rating on ANZ in the next two years. In our base case, we expect that despite a significant fall in interest and fee income, ANZ's earnings in the next two years will remain sufficient to absorb the increase in credit losses due to the COVID-19 outbreak and containment measures.

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Rating Action

On April 8, 2020, S&P Global Ratings revised its outlook on its long-term issuer credit rating on Australia and New Zealand Banking Group Ltd. (ANZ) to negative from stable. At the same time, we affirmed our 'AA-' long-term issuer credit rating and 'A-1+' short-term issuer credit rating on ANZ. We also affirmed all our ratings on debt issued by ANZ.

Rationale

The revision in outlook on ANZ mirrors a similar rating action on Australia (AAA/Negative/A-1+). The government has announced several large stimulus packages to support the economy in response to the COVID-19 shock, and we expect the government's fiscal profile to weaken as a result.

We expect to lower our long-term issuer credit rating on ANZ and its core and highly strategic operating subsidiaries to 'A+' if we were to lower our long-term issuer credit rating on Australia to 'AA+'. In this scenario, we also expect to lower our short-term issuer credit rating on ANZ to 'A-1'. This is because we consider that a lower rating on the sovereign would reflect slightly reduced financial capacity to provide timely financial support to ANZ and other systemically important institutions, if needed.

We consider that ANZ is adequately placed to absorb the increased credit losses--due to the COVID-19 outbreak and containment measures--within its earnings, despite weaker interest margins, fee income, and loan growth compared with recent years. We consider that the substantial fiscal and policy support from the Australian authorities and a strong economic rebound toward the end of calendar 2020 should help to limit the rise in credit losses. We expect that the absolute amount of capital held by the bank will not reduce. Strong and timely monetary support announced by the Australian authorities has alleviated funding and liquidity risks to ANZ from the global financial market dislocation, in our view. We also believe that the likelihood of timely financial support from the Australian government, if needed, remains high. Consequently, our assessment of the ANZ group's stand-alone credit profile (SACP) remains unchanged and we affirmed our ratings on the bank and its core and highly strategic operating subsidiaries.

Outlook

The negative outlook reflects a one-in-three likelihood that we will lower our long-term rating on ANZ in the next two years. In our base case, we expect that despite a significant fall in interest and fee income, ANZ's earnings in the next two years will remain sufficient to absorb the increase in credit losses due to the COVID-19 outbreak and containment measures. Consequently, we expect that the absolute amount of capital held by the ANZ group will not reduce. We forecast a strong economic rebound toward the end of calendar 2020 following a significant downturn. We expect loan growth to remain subdued in the next two years. We also expect that ANZ will be able to adequately manage the funding and liquidity challenges posed by the financial market dislocation in this period.

A weakening in economic conditions may lead us to conclude that systemic risks facing Australian banks have increased. If we worsen the economic risk score by one category within our Banking Industry Country Risk Assessment (BICRA) for Australia to reflect higher systemic risks, we would apply higher risk weights in our capital analysis to reflect the same, which would result in a weakening in our risk-adjusted capital ratios for all banks in Australia. Our SACP for ANZ may weaken by one notch in such a scenario. Consequently, we may lower our ratings on the tier-1 and tier-2 regulatory capital instruments issued by the ANZ group in this scenario. At the same time, we expect our issuer credit rating and our ratings on senior debt issued by the ANZ group to remain unchanged in this scenario due to increased uplift from likely sovereign support to three notches, if other things remained unchanged.

Downside scenario

We expect to lower our long-term issuer credit rating on ANZ and its core and highly strategic operating subsidiaries to 'A+' if we were to lower our long-term local currency issuer credit rating on Australia to 'AA+'. This is because we consider that a lower rating on the sovereign would reflect slightly reduced financial capacity to provide timely financial support to ANZ and other systemically important institutions in Australia, if needed.

In a less likely and more severe downside scenario, well beyond our current forecasts, we could worsen the economic risk score by more than one category within our BICRA on Australia or otherwise worsen our overall BICRA score on Australia, which would likely be reflected in widespread downgrades for Australian banks. A hypothetical example of such a scenario would be an imminent or actual rapid fall in property prices along with a materially weaker economic outlook than our current forecast. A material fall in our risk-adjusted capital ratio for ANZ, for example due to very large credit losses, is another unlikely downgrade scenario.

Upside scenario

We expect to revise the outlook to stable if we affirm our issuer credit rating of 'AAA' on Australia with a stable outlook, and we do not see emergence of a substantially weaker economic outlook compared with our current forecast.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+
SACP	a	a
Anchor	bbb+	bbb+
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Strong (+1)	Strong (+1)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Average and Adequate (0)	Average and Adequate (0)
Support	+2	+2
ALAC Support	0	0
GRE Support	0	0
Group Support	0	0
Sovereign Support	+2	+2
Additional Factors	0	0

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: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013

- 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
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Australia Outlook Revised To Negative As COVID-19 Outbreak Weakens Fiscal Outcomes; 'AAA/A-1+' Ratings Affirmed, April 8, 2020
- For Asia-Pacific Banks, COVID-19 Crisis Could Add US$300 Billion To Credit Costs, April 5, 2020
- Scenario and Sensitivity Analysis: Australian Banks Resilient To COVID-19 Crisis, April 1, 2020
- New Zealand Banks Buckle Down For Lockdown, March 31, 2020
- Credit Conditions Asia-Pacific: As Bad As 1997, March 30, 2020
- Downside Risks To Australian Property Prices Not Yet Alarming For Banks, March 25, 2020
- RBA's A$90 Billion Funding Salvo Softens COVID-19 Blow For Australian Banks, March 20, 2020
- Australian Banks Can Absorb COVID-19 Shocks, March 16, 2020

Ratings List

Ratings Affirmed	
Australia and New Zealand Banking Group Ltd.	
Certificate Of Deposit	
Foreign Currency	AA-/A-1+
Local Currency	AA-
ANZ Bank New Zealand Ltd.	
Senior Unsecured	AA-
Preferred Stock	BBB-
Certificate Of Deposit	A-1+
Certificate Of Deposit	AA-
Australia and New Zealand Banking Group Ltd.	
Senior Unsecured	AA-
Subordinated	A-
Subordinated	BBB+
Junior Subordinated	BBB-

Certificate Of Deposit	A-1+	
Certificate Of Deposit	AA-	
Commercial Paper	A-1+	
ANZ New Zealand (Int'l) Limited (London Branch)		
Senior Unsecured	AA-	
ANZ New Zealand (Int'l) Ltd.		
Senior Unsecured	AA-	
Commercial Paper	A-1+	
Australia and New Zealand Banking Group Ltd. (London Branch)		
Senior Unsecured	AA-	
Junior Subordinated	BBB-	
Australia and New Zealand Banking Group Ltd.(New York Branch)		
Senior Unsecured	AA-	
Ratings Affirmed; CreditWatch/Outlook Action		
	To	**From**
ANZ Bank New Zealand Ltd.		
Australia and New Zealand Banking Group Ltd.		
Issuer Credit Rating	AA-/Negative/A-1+	AA-/Stable/A-1+
Australia and New Zealand Bank (China) Co. Ltd.		
Issuer Credit Rating	A+/Negative/A-1	A+/Stable/A-1
Ratings Affirmed; New Rating		
	To	**From**
ANZ Bank New Zealand Ltd.		
Certificate Of Deposit		
Local Currency	AA-/A-1+	AA-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.