MOODY'S
INVESTORS SERVICE

CREDIT OPINION
7 February 2022

Update

Rate this Research

Australia and New Zealand Banking Grp. Ltd.

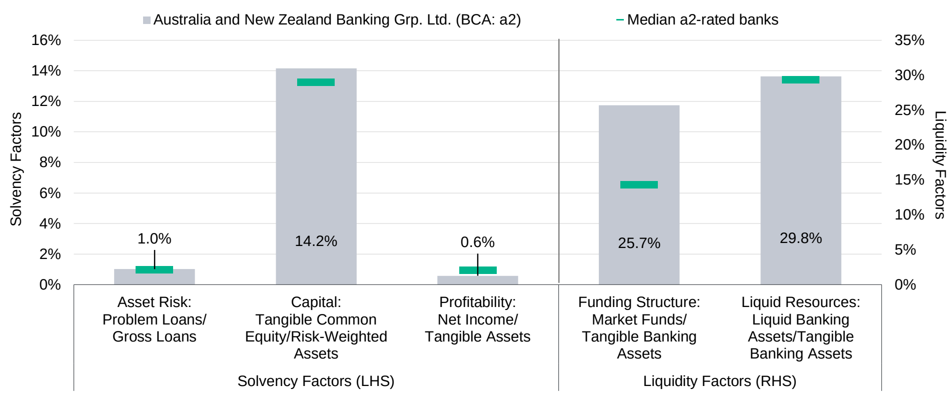
Update to credit analysis

Summary

The Aa3 senior unsecured debt and deposit ratings of Australia & New Zealand Banking Group Limited (ANZ) reflect its strong asset quality, high levels of capital and good liquidity. The Aa3 rating incorporates two notches of uplift from ANZ's standalone financial strength of a2, in recognition of the bank's systemic importance and the traditionally supportive approach of Australia's bank supervisors.

ANZ's profitability has rebounded strongly in the fiscal year ended 30 September 2021 (FY2021) from a write-back of some of the loss reserves raised in response to the pandemic, reflecting the improving operating environment for Australian banks. As the economy recovers from the pandemic, we expect asset quality will remain sound. ANZ's strong balance sheet, particularly its high levels of capital and loan loss reserves, provides a strong buffer against any potential rise in loan losses.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

RATINGS

Australia and New Zealand Banking Grp. Ltd.

Domicile	Melbourne, Victoria, Australia
Long Term CRR	Aa2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Aa3
Type	Senior Unsecured - Fgn Curr
Outlook	Stable
Long Term Deposit	Aa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Credit strengths

» High levels of capital.

» Very high levels of loss absorbing reserves.

» Funding and liquidity position is strong, with additional support from the Reserve Bank of Australia.

Credit challenges

» Asset quality may deteriorate due to the economic impact of the coronavirus, but from a strong base.

» Underlying revenue growth expected to be constrained by competition and margin pressure in a low interest rate environment.

Rating outlook

The outlook on ANZ's ratings is stable. Despite the uncertain outlook on the economy as it recovers from the pandemic, these risks are partly mitigated by the bank's resilient balance sheet settings.

Factors that could lead to an upgrade

» Problem loans ratio (measured as impaired loans + loans more than 90 days past due as a % of gross loans and advances) falls to below 0.5%.

» Moody's capital ratio (measured as tangible common equity as a % of RWA) increases to above 16%.

Factors that could lead to a downgrade

» Return on assets, as measured by Moody's, falls to 0.5%.

» Problem loans ratio (measured as impaired loans + loans more than 90 days past due as a % of gross loans and advances) rise to above 1.8%.

» An increase in the level of wholesale funding such that market funds as a % of tangible banking assets rises to 40%.

Key indicators

Exhibit 2

Australia and New Zealand Banking Grp. Ltd. (Consolidated Financials) [1]

	09-21[2]	09-20[2]	09-19[2]	09-18[2]	09-17[2]	CAGR/Avg.[3]
Total Assets (AUD Million)	943,391.0	907,848.0	860,542.0	875,136.0	836,381.0	3.1[4]
Total Assets (USD Million)	681,458.7	650,698.5	580,392.4	633,206.7	656,268.2	0.9[4]
Tangible Common Equity (AUD Million)	58,924.0	55,562.0	54,998.0	54,024.0	51,756.0	3.3[4]
Tangible Common Equity (USD Million)	42,563.8	39,824.0	37,093.4	39,089.2	40,610.5	1.2[4]
Problem Loans / Gross Loans (%)	0.8	1.1	1.1	0.8	0.9	1.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.2	12.9	13.2	13.8	13.2	13.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	8.4	11.6	11.4	8.7	9.4	9.9[5]
Net Interest Margin (%)	1.6	1.6	1.7	1.8	1.8	1.7[5]
PPI / Average RWA (%)	2.1	2.1	2.3	2.5	2.7	2.3[6]
Net Income / Tangible Assets (%)	0.7	0.4	0.7	0.7	0.8	0.7[5]
Cost / Income Ratio (%)	50.4	51.3	49.3	48.7	45.7	49.1[5]
Market Funds / Tangible Banking Assets (%)	25.7	27.6	28.8	28.4	28.5	27.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	29.8	28.1	24.2	23.0	23.8	25.8[5]
Gross Loans / Due to Customers (%)	106.6	112.5	120.8	125.0	125.0	118.0[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Investors Service and company filings

Profile

The Australia and New Zealand Banking Group Limited (ANZ) is the fourth-largest bank in Australia in terms of total deposits and loans, with a market share of 14% each as at 31 December 2021. The bank had a consolidated asset base of AUD979 billion as of 30 September 2021.

ANZ provides a range of financial products and services, including retail, commercial and private banking to retail, small business, corporate and institutional clients. ANZ's primary markets are Australia and New Zealand, supplemented with Institutional banking services across Asia-Pacific, Europe, America and the Middle East.

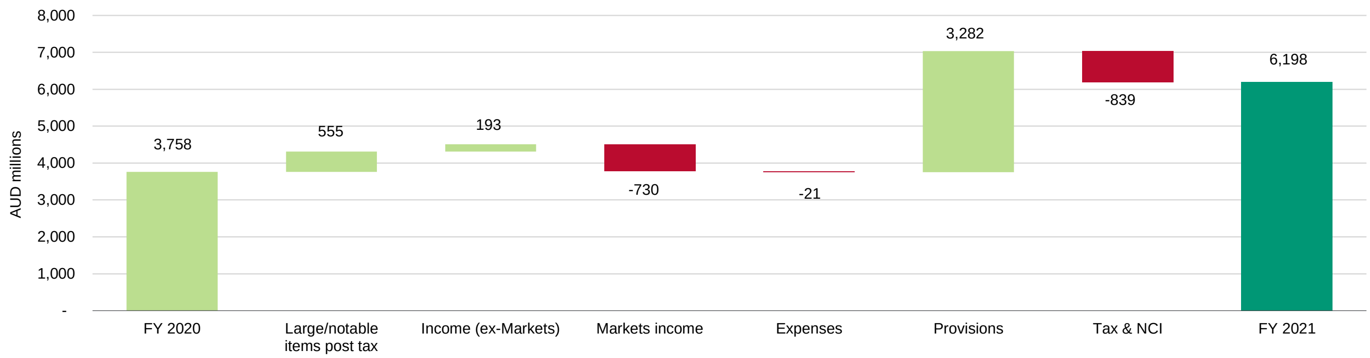
Please refer to the Issuer Profile to read more about ANZ, and the Australian Banking System Profile to read about the Australian banking system.

Detailed credit considerations

Profit boosted by write-back of loss reserves

ANZ statutory profit was AUD6.2 billion in the fiscal 2021, an increase of 72% from the fiscal 2020, with cash earnings up 65%. This was driven by the improved economic environment which had reduced the prospects of high future loan losses, allowing the bank to release AUD567 million of its loan loss reserves. That said this level of reserve release remains modest when compared to the AUD2.7 billion in provision charges taken over the previous year.

Exhibit 3
Profit boosted by provision write-backs
Cash profit waterfall on a continuing operations basis



Source: Bank disclosures

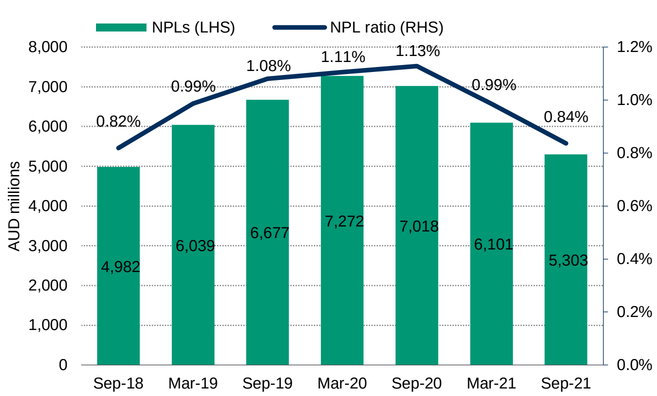
We expect underlying revenue growth to remain difficult given the low interest rate environment. The bank's underlying net interest margin down two basis point to 1.61% in the second half fiscal 2021 (but up two basis points when including Markets activities and Notable items), driven by higher levels of liquid assets and asset repricing. Our outlook for margins remains challenging given low interest rates and intense price competition, particularly for home loans.

Asset quality rebounds, but outlook still uncertain

Non-performing loans, classified as Stage 3 under the accounting standards, are now below March 2020 levels, reflecting the strength of the recovery. This has led to a drop in the bank's non-performing loans ratio to 0.84% as at fiscal 2021, from 1.13% at fiscal 2020. However, there is potential for current pandemic related disruptions to cause higher levels of financial stress for borrowers, but we believe the likelihood of future material increases in non-performing loans is low given the economic environment.

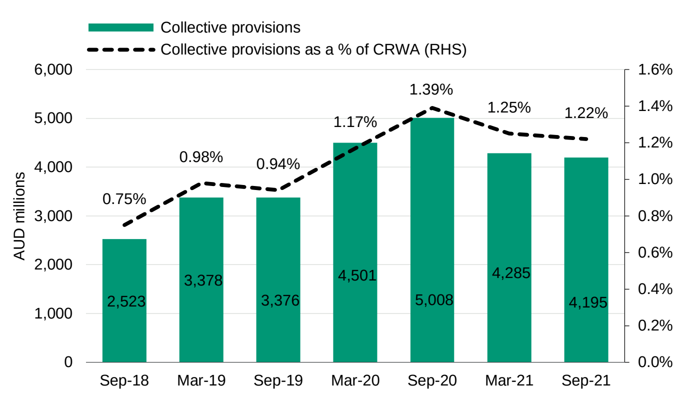
Despite this risk, ANZ is well positioned to absorb potential future loan losses, with the bank holding AUD4.2 billion in collective provisions, representing 1.22% of credit risk-weighted assets as at fiscal 2021. This level of provision balance provides a high level of buffer against loan losses considering the conservative assumptions used in determining its collective provision requirement; ANZ has applied a 47.7% weighting to its downside scenario. A 100% weighting to the bank's downside scenario would imply a collective provision balance of AUD4.3 billion compared to the bank's collective provision balance (including overlays), of AUD4.2 billion held at the fiscal year end.

Exhibit 4
Problem loans have fallen, but could rise due to lags



Source: Bank disclosures, Moody's Investors Service

Exhibit 5
Provision balances remain high providing strong buffer from loan losses



Source: Bank disclosures, Moody's Investors Service

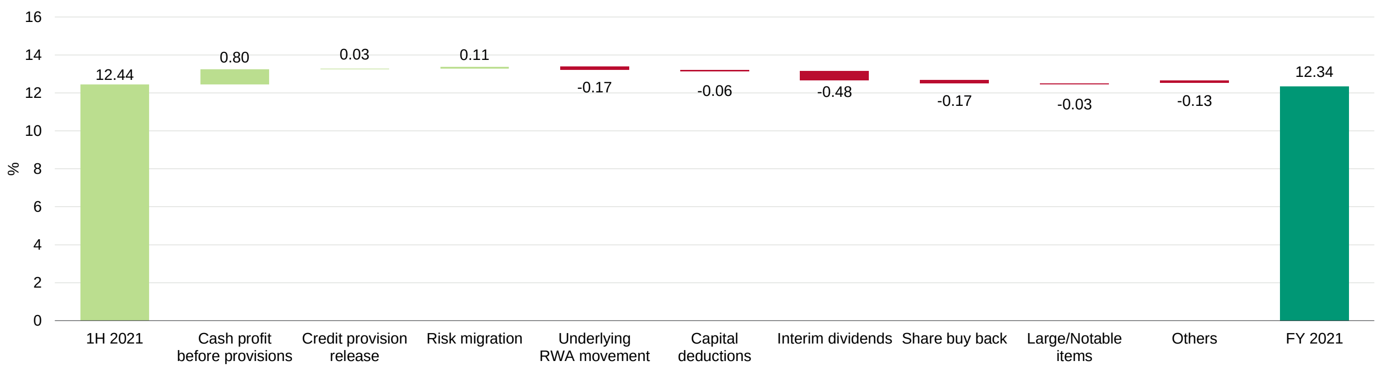
Capital position remains very strong, but normal dividend payouts resume

ANZ's capital base is strong, as reflected by the bank's Common Equity Tier 1 (CET1) ratio increasing to 12.3% from 11.3% in fiscal 2021, which is well above the regulatory 'unquestionably strong' benchmark of 10.25% under APRA's new capital rules for major banks. Capital ratios have also benefited from lower risk-weighted assets, which decreased by 3% in fiscal year 2021, as loans and exposures continue to decline from elevated levels primarily in the Institutional division.

While normal dividend payouts have resumed, with ANZ declaring an annual dividend equivalent to a dividend payout ratio of 65% of cash profit, we believe ANZ's ability to generate organic capital is strong, and will continue to maintain high levels of capital.

Exhibit 6

Capital higher as normal dividend repayments resume
Common Equity Tier 1 ratio



Source: Bank disclosures, Moody's Investors Service

Central bank programs will continue to support funding and liquidity

ANZ's combined liquidity score of baa1 reflects the bank's significant wholesale funding requirement, while recognising its strong access to liquid resources. Australia's major banks, including ANZ, have a structural reliance on wholesale funding, with an important offshore component.

ANZ's funding and liquidity profile has benefited from the current elevated levels of system liquidity from both monetary and fiscal policy actions taken in response to the pandemic, including access to the Reserve Bank of Australia's Term Funding Facility (TFF). Total deposits have grown 7.5% in fiscal 2021 (compared to 7.9% in the previous year), and the bank's proportion of loan assets funded by deposits remains high at 89%. Consequently, stable funding remains high, with the bank reporting a Net Stable Funding Ratio (NSFR) of 124% at 30 September 2021.

ANZ's liquid resources score of a3 reflects its good level of on balance sheet liquid assets as well access to additional forms of liquidity. The bank reported an average quarterly Liquidity Coverage Ratio (LCR) of 135.8% at 30 September 2021. Liquid assets for the purposes of the LCR calculation include access to the Reserve Bank's Committed Liquidity Facility (CLF).

Rating is supported by Australia's strong operating environment

Australia's Strong+ Macro Profile reflects the country's very high degree of economic robustness, institutional and government financial strength, and low susceptibility to event risk. Australia's economy grew uninterrupted for 28 years before the pandemic, and unemployment remains low. Our baseline scenario projects a recovery in the country's real GDP growth to 4.0% in 2021 and 3.3% in 2022 from a contraction of 2.4% in 2020.

The government's economic support package has provided financial assistance to companies and individuals, effectively mitigating the negative impact of reduced activity caused by the pandemic. Fiscal measures and partial government guarantees have provided credit to small and medium-sized enterprises, while government wage subsidies and debt rescheduling efforts by banks have relieved the immediate pressure on borrowers and minimized a potential wave of bankruptcies.

Government wage subsidy payments and bank loan forbearance expired at the end of March 2021, which will highlight the underlying impact of the pandemic on residential mortgage quality and small business loans. Household debt is high, with household debt/ annualized disposable income at 185% as of September 2021. However, employment growth, low interest rates, rebounding house prices and low LVRs on home loans, and small business loans that are typically secured by residential properties should provide buffers to asset quality.

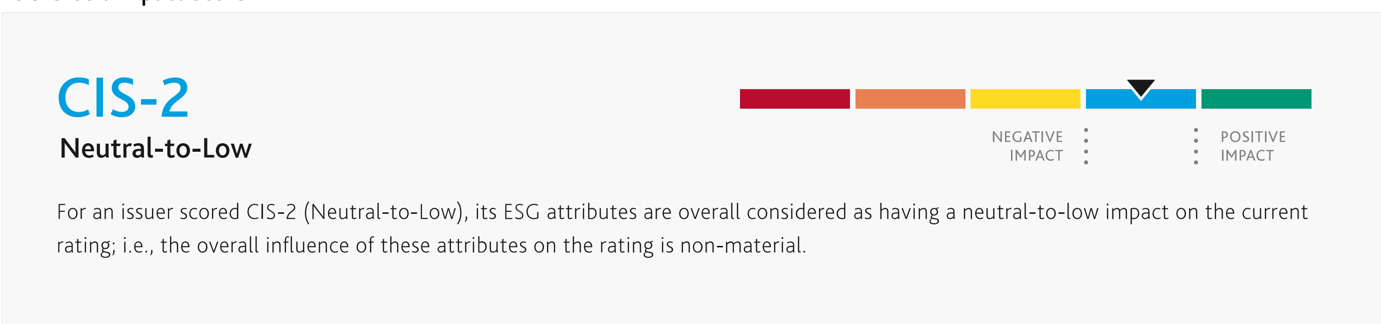
Australian banks' very strong pricing power has historically been supported by the high level of concentration in the banking sector. While loan loss charges increased during the pandemic and loan volumes declined, rebounding economic conditions are once again supporting demand for credit. To date, banks have successfully preserved their NIMs as lower funding costs, assisted by low-cost funding facilities from the RBA, offset the impact of the low interest rate environment on interest income.

Australia's structural reliance on external financing remains a key vulnerability. However, Australian banks have been extending the term structure of their wholesale market funding for a number of years and pre-funding upcoming maturities well in advance. The RBA's committed liquidity facility, combined with its bond purchases and term-repo operations, has boosted system-level liquidity. A temporary reciprocal swap line arrangement between the RBA and the US Federal Reserve has facilitated access to US dollar liquidity during periods of market dislocation.

ESG considerations

Australia and New Zealand Banking Grp. Ltd.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

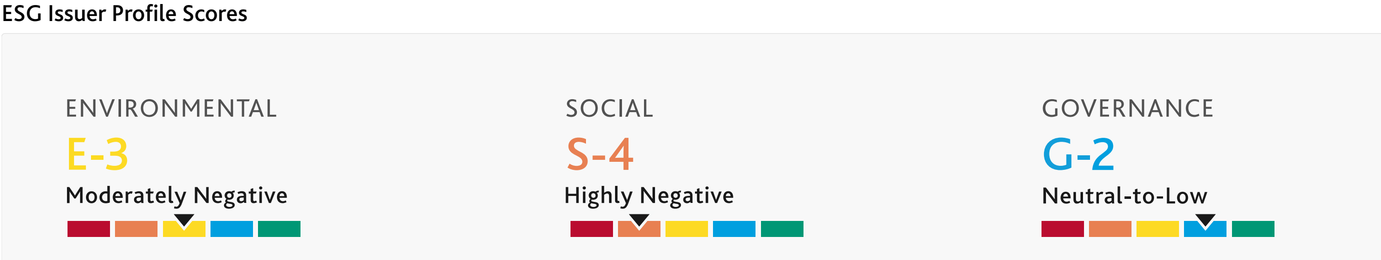
Exhibit 7
ESG Credit Impact Score



Source: Moody's Investors Service

ANZ's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environmental and social risk factors on the ratings to date, and low governance risks.

Exhibit 8
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

ANZ faces moderate exposure to environmental risks, in line with peers, primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In response, ANZ is actively engaging in developing its climate risk management and reporting frameworks by incorporating environmental considerations in its strategy and lending policies, including policies related to financing of coal-related businesses.

In October 2021, ANZ became the first Australian bank to join the Net-zero Banking Alliance – reflecting ANZ's commitment to align its lending portfolio's with the goal of achieving net-zero emissions by 2050. In December 2021, ANZ announced interim 2030 targets for its energy and commercial property lending portfolio's of 50% and 60% reductions in emissions intensity respectively.

Social

ANZ faces high industrywide social risks from customer relations (regulatory risk, litigation exposure and high compliance standards), and the area of data security and customer privacy. While the Australian regulators' focus on mis-selling and misrepresentation have identified weaknesses in some policies and procedures, extensive remedial actions are well progressed at addressing these deficiencies. The bank also faces industrywide moderate social risks related to societal trends – in particular, digitalization --- and the extent to which such measures could hurt earnings. Significant investment also places ANZ in a strong position to meet rising digital expectations from customers.

Governance

ANZ faces low governance risks. The bank's risk management, policies and procedures are in line with industry best practices and are suitable for its risk appetite. While the bank has incurred significant charges for customer remediation and regulatory capital add-ons for operational risk, which have hampered our assessment of financial strategy and risk management, significant investment has strengthened the bank's risk management and controls capabilities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure Analysis

There is currently no statutory bail-in in Australia. As a result, we do not consider Australia to have an operational resolution regime (as defined in our Banks rating methodology). We apply a basic Loss Given Failure approach in rating Australian banks' junior securities.

To determine whether Australia has an operational resolution regime, we take both the current resolution framework and Australian policymakers' public stance into account. Although Australia is a member of the Financial Stability Board, which has highlighted the lack of statutory bail-in as a gap compared with international standards, the authorities have so far adopted a more nuanced public stance on this issue.

In 2019 APRA required Australia's four largest banks to lift Total Capital by three percentage points of RWA by 1 January 2024 by means of Tier 2 issuance, with a long term target of an additional four to five percentage points of loss absorbing capacity to support their orderly resolution. Banks will be able to meet this requirement with existing capital instruments, including Common Equity Tier 1, Additional Tier 1 and Tier 2 capital instruments. However, APRA temporarily eased pressure on the four banks to maintain Common Equity Tier 1 ratios of at least 10.5%, in order to facilitate lending during the coronavirus outbreak.

APRA's stance thus far does not alter our view that there remains a role for public funds in resolving a failing bank. We do not factor any government support into the ratings for smaller banks with lower systemic importance. However, we view the current economic support packages, including fiscal stimulus, enhanced financial market liquidity and term funding to support credit intermediation, as measures that are temporarily increasing the level of indirect government support for the entire banking system.

Government support

Potential for government support remains very high. ANZ's Aa3 global-scale local currency deposit and senior debt ratings incorporate two notches of uplift from the bank's Baseline Credit Assessment of a2, reflecting a very high probability that, as a consequence of its size, it would receive systemic support in case of need.

Counterparty Risk (CR) Assessment

ANZ's CR Assessment is Aa2(cr)/Prime-1(cr)

We consider Australia to be a non-operational resolution (non-ORR) regime. For non-ORR countries, the starting point for the CR assessment is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support uplift as applied to deposit and senior unsecured debt ratings.

Counterparty Risk Ratings (CRRs)

ANZ's CRRs are Aa2/P-1

We consider Australia to be a non-operational resolution (non-ORR) regime. For non-ORR countries, the starting point for the CRR is one notch above the bank's Adjusted BCA, to which we then typically add the same notches of government support uplift as applied to deposit and senior unsecured debt ratings.

About Moody's scorecard

Our scorecard is designed to capture, express and explain in summary form our rating committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees, and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 9

Australia and New Zealand Banking Grp. Ltd.

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.0%	aa3	↔	aa3	Quality of assets	Long-run loss performance
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	14.2%	a1	↔	a1	Stress capital resilience	Access to capital
Profitability						
Net Income / Tangible Assets	0.6%	baa2	↔	baa1	Return on assets	
Combined Solvency Score		a2		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	25.7%	baa2	↔	baa1	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.8%	a3	↔	a3	Access to committed facilities	Additional liquidity resources
Combined Liquidity Score		baa1		baa1		
Financial Profile				a2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Aaa		
BCA Scorecard-indicated Outcome - Range				a1 - a3		
Assigned BCA				a2		
Affiliate Support notching				0		
Adjusted BCA				a2		

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	a1	2	Aa2	Aa2
Counterparty Risk Assessment	1	0	a1 (cr)	2	Aa2(cr)	
Deposits	0	0	a2	2	Aa3	Aa3
Senior unsecured bank debt	0	0	a2	2	Aa3	Aa3
Dated subordinated bank debt	-1	-1	baa1	0	Baa1 (hyb)	Baa1 (hyb)
Junior subordinated bank debt	-1	-1	baa1	0		Baa1 (hyb)

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Investors Service

Ratings

Exhibit 10

Category	Moody's Rating
AUSTRALIA AND NEW ZEALAND BANKING GRP. LTD.	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Bank Deposits	Aa3/P-1
Baseline Credit Assessment	a2
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Issuer Rating	Aa3
Senior Unsecured	Aa3
Subordinate	Baa1 (hyb)
Jr Subordinate	Baa1 (hyb)
Commercial Paper	P-1
Other Short Term	(P)P-1
AUSTRALIA AND NEW ZEALAND BNKG GRP LTD, HK BR	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Senior Unsecured MTN	(P)Aa3
Other Short Term	(P)P-1
AUSTRALIA AND NEW ZEALAND BNKG GRP LTD, SG BR	
Counterparty Risk Rating	Aa2/P-1
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
ANZ BANK NEW ZEALAND LIMITED	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Bank Deposits	A1/P-1
Baseline Credit Assessment	a3
Adjusted Baseline Credit Assessment	a2
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Issuer Rating	A1
Senior Unsecured -Dom Curr	A1
Senior Subordinate	(P)A3
ST Issuer Rating	P-1
Other Short Term	(P)P-1
ANZ NEW ZEALAND (INT'L) LTD, LONDON BRANCH	
Outlook	Stable
Counterparty Risk Rating	Aa3/P-1
Counterparty Risk Assessment	Aa3(cr)/P-1(cr)
Bkd Senior Unsecured	A1
Bkd Other Short Term	(P)P-1
ANZ NEW ZEALAND (INT'L) LIMITED	
Outlook	Stable
Bkd Senior Unsecured	A1
Bkd Commercial Paper	P-1
Bkd Other Short Term	(P)P-1
AUSTRALIA AND NEW ZEALAND BNKG GRP LTD, NY BR	
Outlook	Stable
Counterparty Risk Rating	Aa2/P-1
Counterparty Risk Assessment	Aa2(cr)/P-1(cr)
Senior Unsecured	Aa3
AUSTRALIA AND NEW ZEALAND BNKG GRP LTD, LDN	

Pref. Stock Non-cumulative	Baa2 (hyb)

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454