Fitch Ratings

12 APR 2021

Fitch Revises Outlook on ANZ to Stable; Affirms at 'A+'

Fitch Ratings - Sydney - 12 Apr 2021: Fitch Ratings has revised the Outlook on Australia and New Zealand Banking Group Limited's (ANZ) Long-Term Issuer Default Rating (IDR) to Stable, from Negative, and has affirmed the rating at 'A+'. Fitch has also revised the Outlook on the Long-Term IDR of ANZ's wholly owned New Zealand subsidiary, ANZ Bank New Zealand Limited (ANZNZ), to Stable, from Negative, and has affirmed the rating at 'A+'. ANZNZ's Viability Rating was not considered as part of this rating action.

The Outlook revision reflects Australia's improved economic prospects and increased certainty, which gives Fitch greater confidence that ANZ's financial profile is likely to remain consistent with its current ratings over the next two years.

Key Rating Drivers

IDRS, VIABILITY RATING AND SENIOR DEBT

ANZ's IDRs, Viability Rating and senior debt rating are supported by the bank's business model and franchise, which in turn support its sound financial profile. ANZ is one of Australia's four major banks, accounting for 14% of system assets at end-January 2021. It also operates the largest of New Zealand's four major banks.

The Stable Outlook reflects our view that ANZ has sufficient headroom in its financial metrics to maintain the current rating, even in a scenario that is moderately weaker than our base case. Australia's good handling of the health aspects of the coronavirus pandemic has allowed the economy to rebound strongly; we now expect GDP to expand by 4.7% in 2021. Downside to this forecast remains, particularly until the vaccination programme is completed, but has reduced significantly since early 2020. This has led us to revise the factor outlooks for the operating environment (aa-), asset quality (a+) and earnings (a) to stable, from negative.

We still expect asset-quality metrics to weaken during 2021 as pandemic-related customer-support measures unwind, despite the stable asset-quality outlook. However, the weakening should be manageable and remain commensurate with the 'a+' score. House price appreciation will limit the likelihood of losses from forced sales in the short term, but could create medium-term risks if accompanied by a further build up in household debt.

Longer-term headwinds, such as low interest rates, subdued system growth and high investment costs, are likely to weigh on earnings. However, earnings and profitability should improve in 2021 through the release of some of the provisions built up in 2020, lower one-off costs and the improving economic environment. We expect the economic environment to see ANZ's earnings metrics remain consistent with the current factor score over the next two years, leading us to revise the factor outlook to stable.

We expect capitalisation to broadly remain stable as uncertainty around asset quality reduces. ANZ's common equity Tier 1 (CET1) ratio was 11.7% at end-2020 and will further benefit upon the conversion of a NZD500 million New Zealand AT1 security, scheduled for May 2022. However, we expect any capital surplus to management targets to be returned to shareholders. ANZ's CET1 ratio should stay at a level commensurate with an 'a+' score, even in a scenario somewhat more severe than our base case, as reflected in the stable outlook on the factor.

We believe there is limited pressure on ANZ's funding and liquidity profile in the short to medium term. The bank has experienced strong deposit inflow since the onset of the pandemic and should continue to benefit from its franchise strength, high system liquidity and low-cost funding from the central bank's term-funding facility. However, we expect some of the recent improvement in the core metric - loans/customer deposits - to be offset by higher loan growth and the unwinding of liquidity support. Senior unsecured issuance is likely to remain limited for the remainder of financial year end 2021.

ANZ's Short-Term IDR is at the lower of the two options available at a Long-Term IDR of 'A+', as the funding and liquidity score is insufficient to support the higher option, which has a threshold of at least 'aa-'. Senior debt ratings are aligned with ANZ's IDRs, consistent with Fitch's Bank Rating Criteria.

SUPPORT RATING AND SUPPORT RATING FLOOR

ANZ's Support Rating and Support Rating Floor reflect its systemic importance, as highlighted by the bank's domestic market share and contagion risk, given the similar business models of Australia's large banks. We believe there is an extremely high probability of support from local authorities, if needed, as a result.

The authorities have historically shown support for senior bank creditors, including through the provision of liquidity and long-term loan facilities by the Reserve Bank of Australia in response to the pandemic as well as the implementation of a government guarantee for senior bonds during the 2008 global financial crisis. This is reinforced by the regulatory approach to loss-absorbing capital, which does not allow for a senior bail-in instrument. The additional loss-absorbing capital requirement is to be met through existing capital instruments, such as Tier 2 capital securities.

SUBORDINATED DEBT AND HYBRID INSTRUMENTS

ANZ's subordinated Tier 2 debt is rated two notches below its anchor rating, the Viability Rating, which is consistent with the base case in Fitch's Bank Rating Criteria. The two notches are for loss severity, with non-performance risk adequately captured by the Viability Rating. None of the reasons for alternative notching, as described in the criteria, are present.

ANZ's Tier 1 hybrid capital instruments are rated four notches below the Viability Rating - two notches for non-performance risk to reflect the risk of discretionary coupon skip and two notches for loss severity - which is consistent with the base case in the Bank Rating Criteria. None of the reasons for an alternative notching outlined in the criteria are present.

SUBSIDIARY AND AFFILIATED COMPANY

ANZNZ's IDRs and Support Rating, as well as the Stable Outlook, reflect Fitch's assessment of an extremely high likelihood of support from its 100% owner, ANZ, if required.

Fitch regards ANZNZ as a key and integral part of ANZ, offering products and services to clients in a market the group considers to be core. Other factors that support alignment with the parent ratings include our view that an ANZNZ default would constitute huge reputational risk to ANZ and damage the franchise and the strong level of integration between ANZ and ANZNZ's management, risk and treasury teams. We believe the Australian and New Zealand banking regulators would work together to ensure the stability of both financial systems, allowing support to flow as required.

ANZNZ issues its foreign-currency wholesale funding through a funding subsidiary, ANZ New Zealand (Int'l) Limited (ANZNIL). ANZNIL is a wholly owned subsidiary of ANZNZ and is used for funding purposes only. Fitch does not rate ANZNIL, only the senior unsecured debt that it issues. The debt ratings are aligned with ANZNZ's IDRs, as ANZNZ guarantees ANZNIL's debt instruments.

RATING SENSITIVITIES

IDRS, VIABILITY RATING AND SENIOR DEBT

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

- The four-year average of stage 3 loans/gross loans is likely to be maintained below 1% (2020: 1.1%);

- The four-year average of operating profit/risk-weighted assets is likely to improve to above 3% on a sustained basis (2020: 1.5%);

- The CET1 ratio increases above 12% and is maintained above this level;

- ANZ's Short-Term IDR may also be upgraded without an upgrade in the Long-Term IDR if we upgrade its funding and liquidity score by two notches to 'aa-'.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

- The four-year average of stage 3 loans/gross loans is likely to remain around or above 2%;

- The four-year average of operating profit/risk-weighted assets falls below 1.5% consistently;

- The CET1 ratio falls to around 10.0% without a credible plan to raise it back above 10.5%.

Any downgrade of ANZ's Long-Term IDR would be limited to one notch unless the Support Rating Floor is also downgraded.

A downgrade of ANZ's Short-Term IDR and short-term senior debt ratings appears unlikely, as it would require the Long-Term IDR to be downgraded by at least two notches to 'A-' and the funding and liquidity score to be lowered by at least one notch to 'a-'.

SUPPORT RATING AND SUPPORT RATING FLOOR

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

The Support Rating is at the highest level and cannot be upgraded. The Support Rating Floor may be upgraded if Australian authorities provide additional, explicit statements of support for domestically significant banks, including ANZ, or otherwise provide greater certainty that support would be provided if needed.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

A weakening in the propensity of the authorities to provide support may result in Fitch lowering ANZ's Support Rating and Support Rating Floor. However, this appears unlikely.

A change in the authorities' ability to provide support is likely to be reflected in a downgrade of Australia's sovereign rating (AAA/Negative), but may not automatically result in a downgrade of the Support Rating and Support Rating Floor if we believe the propensity to provide support offsets the weakened ability. Any change in the Support Rating Floor would not directly affect ANZ's Long-Term IDR, which is driven by its Viability Rating.

SUBORDINATED DEBT AND HYBRID INSTRUMENTS

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

An upgrade of ANZ's Viability Rating would result in an upgrade of the Tier 2 and additional Tier 1 debt ratings.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

The Tier 2 and additional Tier 1 debt ratings would be downgraded if ANZ's Viability Rating is downgraded.

SUBSIDIARY AND AFFILIATED COMPANY

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade:

An upgrade of ANZ's Long-Term IDR would result in an upgrade of ANZNZ's Long-Term IDRs as long as the propensity to provide support remains unchanged.

The ratings of the senior debt issued by ANZNIL will move in line with ANZNZ's IDRs, as long as the guarantee remains in place.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade:

ANZNZ's Long-Term IDRs would be downgraded if ANZ's Long-Term IDR is downgraded. The Support Rating and IDRs may also be downgraded should Fitch change its view of ANZNZ's importance to its parent.

The ratings of the senior debt issued by ANZNIL would be downgraded if ANZNZ's IDRs are downgraded or if the guarantee from ANZNZ is removed.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Public Ratings with Credit Linkage to other ratings

ANZ New Zealand Limited's ratings are support driven by institutional support from parent, Australia and New Zealand Banking Group Limited.

ANZ New Zealand (Int'l) Limited is not rated but its issuances are aligned with guarantee provided, by ANZ Bank New Zealand Limited

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Fitch Ratings Analysts

Tim Roche

Senior Director
Primary Rating Analyst
+61 2 8256 0310
Fitch Australia Pty Ltd Suite 15.01, Level 15 135 King Street Sydney 2000

Jack Do
Director
Primary Rating Analyst
+61 2 8256 0355
Fitch Australia Pty Ltd Suite 15.01, Level 15 135 King Street Sydney 2000

George Hong
Director
Secondary Rating Analyst
+61 2 8256 0345

Tim Roche
Senior Director
Secondary Rating Analyst
+61 2 8256 0310

Heakyu Chang
Senior Director
Committee Chairperson
+822 3278 8363

Media Contacts

Peter Hoflich
Singapore
+65 6796 7229
peter.hoflich@thefitchgroup.com

Leslie Tan
Singapore
+65 6796 7234
leslie.tan@thefitchgroup.com

Rating Actions

ENTITY/DEBT	RATING			RECOVERY	PRIOR
Australia and	LT IDR	A+	Affirmed		A+

ENTITY/DEBT	RATING			RECOVERY	PRIOR
New Zealand Banking Group Limited					
	ST IDR	F1	Affirmed		F1
	Viability	a+	Affirmed		a+
	Support	1	Affirmed		1
	Support Floor	A	Affirmed		A
• junior subordinated	LT	BBB	Affirmed		BBB
• senior unsecured	LT	A+	Affirmed		A+
• subordinated	LT	A-	Affirmed		A-
• senior unsecured	LT	A+	Affirmed		
• senior unsecured	ST	F1	Affirmed		F1
• senior unsecured	ST	F1	Affirmed		

ENTITY/DEBT	RATING			RECOVERY	PRIOR
ANZ Bank New Zealand Limited	LT IDR	A+	Affirmed		A+
	ST IDR	F1	Affirmed		F1
	LC LT IDR	A+	Affirmed		A+
	LC ST IDR	F1	Affirmed		F1
	Support	1	Affirmed		1
• senior unsecured	LT	A+	Affirmed		A+
• senior unsecured	ST	F1	Affirmed		F1
ANZ New Zealand (Int'l) Limited					
• senior unsecured	LT	A+	Affirmed		A+
• senior unsecured	ST	F1	Affirmed		F1

RATINGS KEY	OUTLOOK	WATCH
POSITIVE		
NEGATIVE		
EVOLVING		

RATINGS KEY OUTLOOK WATCH

STABLE ⭘

Applicable Criteria

Bank Rating Criteria (pub.28 Feb 2020) (including rating assumption sensitivity)

Additional Disclosures

Solicitation Status

Endorsement Status

Disclaimer

Copyright

be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency

equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.
For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001
Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Endorsement policy

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.