MOODY'S
INVESTORS SERVICE

CREDIT OPINION
16 February 2021

Update

Rate this Research

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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CLIENT SERVICES

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

Australia and New Zealand Banking Grp. Ltd.

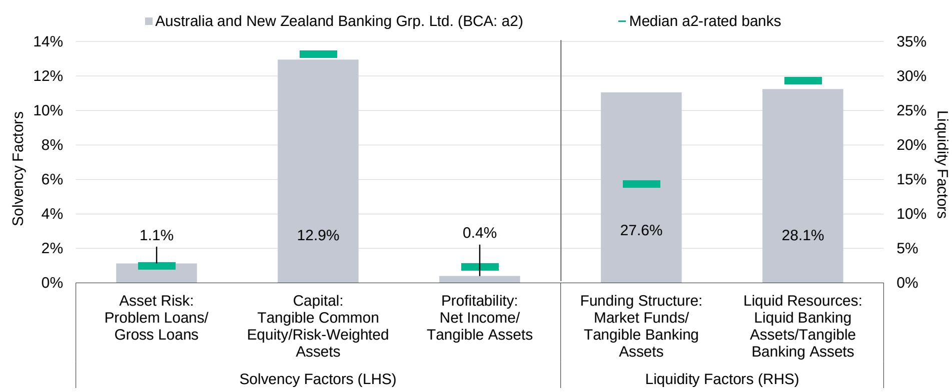
Update to credit analysis

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.

The economic downturn caused by the coronavirus outbreak has led to a surge in credit provisions, weighing heavily on profit in the fiscal year ended 30 September 2020 (fiscal 2020). That said, we believe the current level of provisioning to be sufficient to cover anticipated increases in loan losses. We believe further material increases in loan loss reserves are unlikely, easing pressure on earnings. Nevertheless, low interest rates resulting in low net interest margins will likely continue to constrain revenue growth over the next 12 months. Despite these earnings challenges, ANZ's balance sheet buffers remain strong, specifically the bank's capital position, reflected by its high Common Equity Tier 1 (CET1) ratio of 11.3% as at September 2020.

Exhibit 1
Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

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 likely to deteriorate due to the economic impact of the coronavirus, but from a strong base.

» Earnings expected to be constrained over the next 12 months due to subdued credit growth, and margin pressure in a low interest rate environment.

Rating outlook

The outlook on ANZ's ratings is stable. Despite the negative outlook on the economy from the coronavirus, these risks are partly mitigated by the bank's resilent 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]

	09-20[2]	09-19[2]	09-18[2]	09-17[2]	09-16[2]	CAGR/Avg.[3]
Total Assets (AUD Million)	907,848.0	860,542.0	875,136.0	836,381.0	828,730.0	2.3[4]
Total Assets (USD Million)	650,698.5	580,392.4	633,206.7	656,268.2	634,186.8	0.6[4]
Tangible Common Equity (AUD Million)	55,562.0	54,998.0	54,024.0	51,756.0	49,606.4	2.9[4]
Tangible Common Equity (USD Million)	39,824.0	37,093.4	39,089.2	40,610.5	37,961.4	1.2[4]
Problem Loans / Gross Loans (%)	1.1	1.1	0.8	0.9	1.0	1.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	12.9	13.2	13.8	13.2	12.1	13.1[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	11.6	11.4	8.7	9.4	10.7	10.4[5]
Net Interest Margin (%)	1.6	1.7	1.8	1.8	1.9	1.8[5]
PPI / Average RWA (%)	2.1	2.3	2.5	2.7	2.4	2.4[6]
Net Income / Tangible Assets (%)	0.4	0.7	0.7	0.8	0.7	0.7[5]
Cost / Income Ratio (%)	51.3	49.3	48.7	45.7	51.8	49.4[5]
Market Funds / Tangible Banking Assets (%)	27.6	28.8	28.4	28.5	30.4	28.7[5]

Liquid Banking Assets / Tangible Banking Assets (%)	28.1	24.2	23.0	23.8	23.3	24.5[5]
Gross Loans / Due to Customers (%)	112.5	120.8	125.0	125.0	129.3	122.5[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

Headquartered in Melbourne, the Australia and New Zealand Banking Group Limited (ANZ) is the fourth-largest bank in Australia in terms of total deposits and loans, with respective market shares of 14% for each as at 31 December 2020. The bank had a consolidated asset base of AUD1,042 billion as of 30 September 2020.

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, but the group operates also provides services across Asia Pacific, Europe, America and the Middle East.

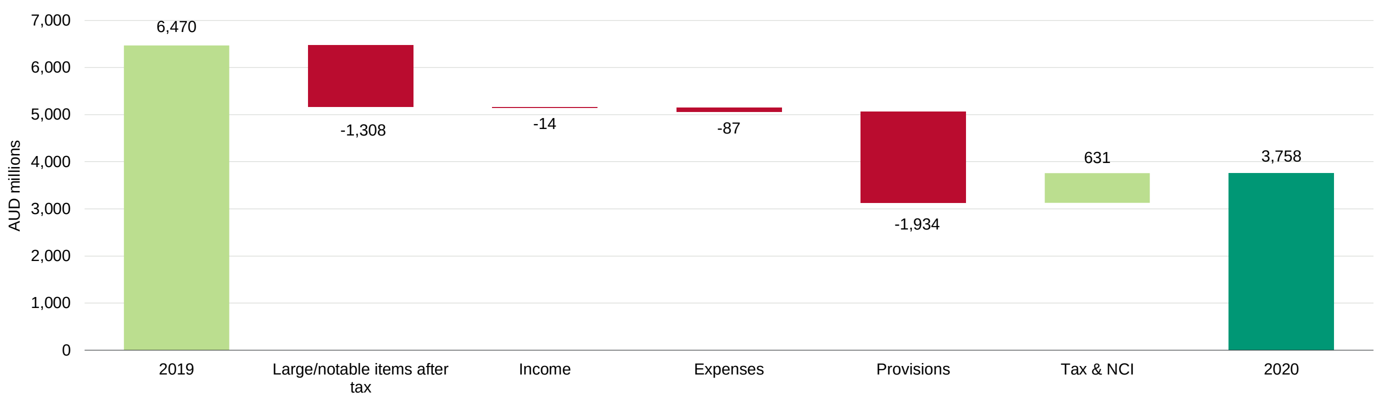
Please refer to the Issuer Profile to read more about ANZ, and the Australian Banking System Profile to read about the Australian banking system.

Detailed credit considerations

Coronavirus impact adds to existing profitability challenges

The bank's fiscal year 2020 statutory profits and cash earnings were significantly lower than 2019 due to the high COVID-19 related credit impairment charge and because of other large charges, both primarily taken in the first half of the fiscal year. Credit impairment charges for the year totaled AUD2.7 billion, reflecting the bank's economic outlook and its resulting impact on asset quality. In addition to these costs, the bank also took other charges during the year of AUD1.5 billion, primarily due to the write-down in the bank's carrying value of its investments in other Asian based banks, as well as increasing provisions for customer remediation. After our adjustments, ANZ's staturory profits of AUD3.58 billion represent a return on assets of 0.4%.

Exhibit 3
Profits hit by provision charges and write-downs
Cash profit



Source: Bank disclosures

We expect further earnings pressure to persist into 2021, with the prospect of lower credit growth, excess holdings of liquid assets, and lower interest rates putting further pressure on the bank's net interest margin (NIM). ANZ's NIM was down 12 basis points at 1.63% in fiscal 2020, with the bank estimating a further 3 basis points decline in the first half of fiscal 2021 due to the impact of the low rates on the replicating portfolio. Additionally, we expect lending growth to remain low over 2021 which, when combined with a lower margin, will constrain revenues. While the revenue outlook is challenging, ANZ's profitability could improve in 2021 should the spread of COVID-19 continue to be contained, enabling continued economic growth. In this scenario, loan loss provision expenses could be lower in 2021, providing a boost to profits.

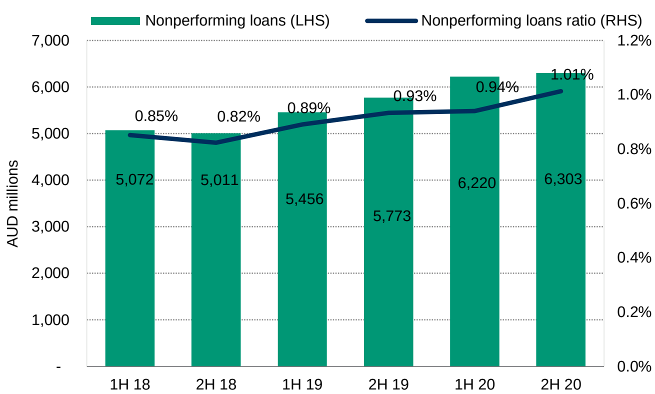
High levels of reserves provide a strong buffer against potential credit losses

We expect asset quality problems will emerge over the next 6-months as the regulatory forbearance measures expire and as the government's income support for businesses and individuals also expires. The bank's non-performing loans ratio has remained stable and low at 1.1% in FY2020.

While the asset quality outlook is likely to worsen, we expect the ultimate level of problem loans and eventual credit losses would be manageable for ANZ. The latest data, as of end December 2020, regarding loan deferrals show an improving trend with 3% of ANZ's total loans on temporary repayment deferrals (3% of total housing loans and 3% of total small and medium business loans), which is above the banking system average of 1.9%. However, the proportion of loans on deferral is significantly below the 10% reported back in June 2020.

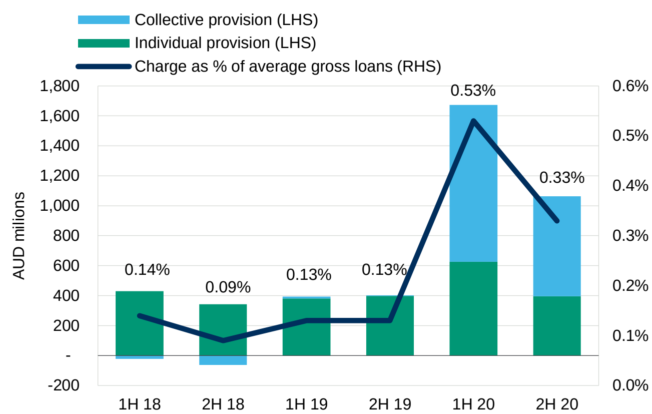
ANZ has significantly increased its collective provisions to AUD5 billion in fiscal 2020, from AUD3.4 billion the previous year - sufficient to cover the bank's modeled expected credit losses arising from its base case economic downturn scenario. Moreover, the bank estimates it would only require an additional AUD100 million in additional provisions to adequately cover credit losses arising from its downside scenario, which underlines the strength of the bank's loss reserves.

Exhibit 4
Asset quality enters the downturn from a strong starting point



Source: Bank disclosures, Moody's Investors Service

Exhibit 5
Credit impairment charge beginning to moderate following build up in provisions

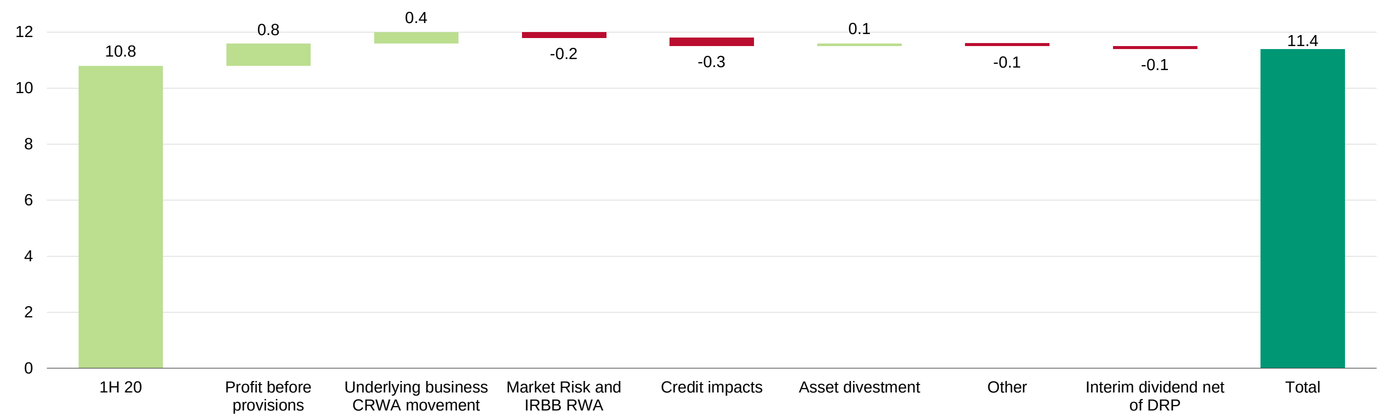


Source: Bank disclosures, Moody's Investors Service

Capital position remains very strong, but buffers likely to weaken

The bank's capital position remains very strong, with a CET1 ratio of 11.4% as at 30 September (on a pro-forma basis including the conversion of the NZD500 million Capital Note from its New Zealand subsidiary). We believe ANZ will maintain high levels of capital over the next 12 months to buttress against the uncertainty with regards to the economic and asset quality outlook. ANZ could face higher levels of capital consumption from an increase in credit risk weighted asset densities. The bank has disclosed that an increase in credit risk weighted assets, resulting from a lowering of its internal credit grades for its customers, could reduce its CET1 ratio by up to 65 basis points over the course of 2020 and 2021. The actual impact as at fiscal 2020 was 17 basis points. However, the bank's actual capital ratio could benefit from either improved profitability or other portfolio actions to reduce risk weighted assets that would counterbalance the effects of negative credit migration.

Exhibit 6
Capital ratios remain strong but could face pressure from credit migration
Common Equity Tier 1 ratio %



Source: Bank disclosures, Moody's Investors Service

Central bank programs will continue to support funding and liquidity

ANZ's funding and liquidity profile has remained relatively stable in fiscal 2020 due to the surge in system liquidity from both monetary and fiscal policy actions taken in response to the pandemic. Deposits have increased significantly in 2020, driven by both household and business deposits, on the back of reduced consumption in light of the pandemic. Additionally, ANZ's funding position benefits from access to the Reserve Bank of Australia's Term Funding Facility (TFF), with AUD12 billion in initial allowance having been drawn in fiscal 2020, and a further AUD12 billion in supplementary and additional allowance available to be drawn until 30 June 2021. These dynamics combined with subdued demand for credit has led to AUD106 billion in excess stable funding, with the bank reporting a Net Stable Funding Ratio (NSFR) of 124% as at fiscal 2020.

The bank reported an average Liquidity Coverage Ratio (LCR) of 139.4% for the 3-months to 30 September 2020. ANZ's liquid assets for the purposes of the LCR calculation include an AUD 35.7 billion Committed Liquidity Facility approved by the RBA.

Rating is supported by Australia's strong operating environment

Australia's Strong+ Macro Profile reflects a very high degree of economic resilience, institutional and government financial strength, and low susceptibility to event risk. Following 28 years of uninterrupted economic growth, our baseline scenario for real GDP growth has been downgraded to -4.0% in 2020 as a result of the impact of the coronavirus outbreak. While we expect a recovery in 2021, with GDP growth of 3.5%, risks are to the downside.

The government has implemented substantial economic support packages that have provided financial assistance to companies and individuals, which will likely mitigate the negative impact of reduced activity because of the coronavirus outbreak. Fiscal measures and partial government guarantees to facilitate credit to small and medium-sized enterprises, wages subsidies and debt rescheduling efforts by banks will relieve the immediate pressure on borrowers and help minimize a potential wave of bankruptcies. The magnitude of the deterioration in the economy will ultimately depend on the length of the disruption.

While Australian banks' current asset quality is very strong, it will deteriorate significantly if disruptions persist for a prolonged period and push up the unemployment rate, leading to more impairments of residential mortgages, which comprise around two-thirds of banking system loans. Relatively low average loan-to-value ratios provide a buffer for house price declines, but household debt is high, with household debt/annualized disposable income of 179.9% as at September 2020.

Australian banks' very strong pricing power has historically been supported by the high level of concentration in the banking sector. However, we expect them to face pressure on profitability because of the impact of the coronavirus outbreak. Net interest margins will be constrained by the low interest rate environment and loan growth will likely remain low reflecting economic conditions, offering little room for revenue growth. While banks may save costs by pausing projects, this is unlikely to fully offset the negative impact of lower revenue.

Australia's structural reliance on external financing remains an important vulnerability. However, Australian banks have been lengthening the term structure of their wholesale market funding for a number of years, and they pre-fund upcoming maturities well in advance. Furthermore, slower credit growth, combined with weaker spending, has reduced banks' wholesale funding needs. The RBA's committed liquidity facility, combined with its bond purchases and term-repo operations, will underpin system-level liquidity. A temporary reciprocal swap line arrangement between the RBA and the US Federal Reserve will facilitate access to US dollar liquidity.

ESG considerations

In line with our general view for the banking sector, ANZ has a low exposure to Environmental risks and moderate exposure to Social risks. See our Environmental and Social risks heatmaps for further information.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The rapid and widening spread of the coronavirus outbreak and deteriorating global economic outlook, are creating a severe and extensive credit shock across many sectors, regions and markets, also affecting debt purchasers business and performance.

The most relevant social risks for banks and finance companies arise from the way they interact with their customers. Social risks are particularly high in the area of data security and customer privacy which is partly mitigated by sizable technology investments and banks' long track record of handling sensitive client data. Fines and reputational damage because of product mis-selling or other types of misconduct is a further social risk. Societal trends are also relevant in a number of areas, such as shifting customer preferences toward digital banking services increasing information technology cost, aging population concerns in several countries impacting demand for financial services or socially driven policy agendas that may translate into regulation that affects banks' revenue base. Overall, we consider banks and finance companies to face moderate social risks.

Governance risk is highly relevant for ANZ as highlighted by The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The cost of governance failures are both highly relevant and have negatively impacted profitability in both 2018 and 2019 fiscal years. Customer compensation and remediation charges have cost the bank AUD 279 million (post tax) in 2020. Furthermore, the governance failures have also resulted in higher capital requirements with the Australian Prudential Regulation Authority increasing the bank's operation risk capital requirements by AUD 500 million. The higher capital requirement will remain until the bank satisfactorily address the regulator's concerns. ANZ has established a Royal Commission and Self-Assessment Oversight Group to oversee an integrated response to the Royal Commission and Self-Assessment. The Oversight Group is chaired by the Deputy Chief Executive Officer and includes the Group Chief Risk Officer

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 contrast to loss-absorbing capacity requirements in many other jurisdictions, the Australian Prudential Regulation Authority (APRA) has not proposed a new form of loss-absorbing instrument or a statutory bail-in framework. There are also no proposed legislative changes to impose explicit burden-sharing on bank creditors. However, APRA has indicated that in 2020 it will work on a new prudential standard on resolution and recovery planning.

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 has 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 rating

CRRs are opinions of the ability of entities to honour the uncollateralized portion of non-debt counterparty financial liabilities (CRR liabilities) and also reflect expected financial losses in the event that such liabilities are not honoured. CRR liabilities typically relate to transactions with unrelated parties.

Examples of CRR liabilities include the uncollateralized portion of payables arising from derivatives transactions and the uncollateralized portion of liabilities under sale and repurchase agreements. CRRs are not applicable to funding commitments or other obligations associated with covered bonds, letters of credit, guarantees, servicer and trustee obligations and other similar obligations that arise from a bank performing its essential operating functions.

ANZ's CRRs are positioned at 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.

Counterparty risk assessment

CR Assessments are opinions of how counterparty obligations are likely to be treated if a bank fails, and are distinct from debt and deposit ratings in that they (1) consider only the risk of default rather than both the likelihood of default and the expected financial loss in the event of default; and (2) apply to counterparty obligations and contractual commitments rather than debt or deposit instruments. The CR Assessment is an opinion of the counterparty risk related to a bank's covered bonds, contractual performance obligations (servicing), derivatives (such as swaps), letters of credit, guarantees and liquidity facilities.

ANZ's CR Assessment is positioned at Aa2(cr)/P-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.

About Moody's scorecard

Our scorecard is designed to capture, express and explain in summary form our rating committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment 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 7

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	1.1%	aa3	↔	aa3	Collateral and provisioning coverage	Long-run loss performance
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	12.9%	a3	↔	a1	Risk-weighted capitalisation	Access to capital
Profitability						
Net Income / Tangible Assets	0.4%	ba1	↔	baa1	Loan loss charge coverage	Expected trend
Combined Solvency Score		a3		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	27.6%	baa2	↔	baa1	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.1%	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 8

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
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

REPORT NUMBER 1255214

CLIENT SERVICES

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

Moody's
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