MOODY'S
INVESTORS SERVICE

CREDIT OPINION
4 April 2023

Update

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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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Australia and New Zealand Banking Grp. Ltd.

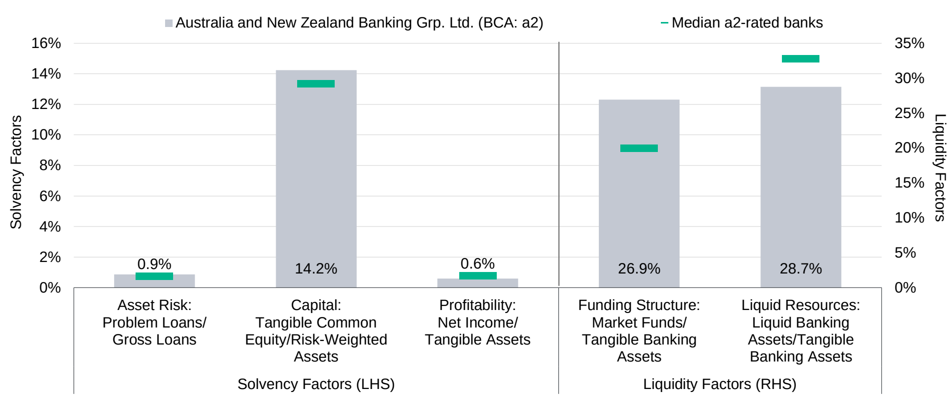
Update following rating affirmation

Summary

The Aa3 senior unsecured debt and deposit ratings of Australia & New Zealand Banking Group Limited (ANZ) reflect the group's strong capital levels, robust asset quality and a sound funding and liquidity position. ANZ's 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 improved in fiscal 2022 as supported by rising rates and a pickup in loan volumes. While we expect some margin improvement in the next 12 months as interest rates rise, the benefits could be offset by rising credit costs and operating expenses. Though asset quality is strong, high inflation and tightening monetary policy will place pressure on borrowers. That said, ANZ remains well-positioned against these risks with high levels of loss absorption buffer and robust capital position.

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 may deteriorate as rising interest rates and high inflation leads to a rise in loan delinquencies, albeit from very low levels.

» Underlying revenue growth expected to be constrained by competition and slowing credit growth.

Rating outlook

The outlook on ANZ's ratings is stable. Despite an uncertain outlook as the economy recovers from the pandemic amid inflationary pressures, 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 Stage 3 loans 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 Stage 3 loans 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]

	09-22[2]	09-21[2]	09-20[2]	09-19[2]	09-18[2]	CAGR/Avg.[3]
Total Assets (AUD Million)	1,002,323.0	943,391.0	907,848.0	860,542.0	875,136.0	3.5[4]
Total Assets (USD Million)	644,443.9	681,458.7	650,698.5	580,392.4	633,206.7	0.4[4]
Tangible Common Equity (AUD Million)	64,765.8	58,924.0	55,562.0	54,998.0	54,024.0	4.6[4]
Tangible Common Equity (USD Million)	41,641.2	42,563.8	39,824.0	37,093.4	39,089.2	1.6[4]
Problem Loans / Gross Loans (%)	0.6	0.8	1.1	1.1	0.8	0.9[5]
Tangible Common Equity / Risk Weighted Assets (%)	14.2	14.2	12.9	13.2	13.8	13.7[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	6.4	8.4	11.6	11.4	8.7	9.3[5]
Net Interest Margin (%)	1.6	1.6	1.6	1.7	1.8	1.6[5]
PPI / Average RWA (%)	2.2	2.1	2.1	2.3	2.5	2.2[6]
Net Income / Tangible Assets (%)	0.7	0.7	0.4	0.7	0.7	0.6[5]
Cost / Income Ratio (%)	50.4	50.4	51.3	49.3	48.7	50.0[5]
Market Funds / Tangible Banking Assets (%)	26.9	25.7	27.6	28.8	28.4	27.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	28.7	29.8	28.1	24.2	23.0	26.8[5]
Gross Loans / Due to Customers (%)	108.6	106.6	112.5	120.8	125.0	114.7[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 13% each as at 31 January 2023. The bank had a consolidated asset base of AUD1,086 billion as of 30 September 2022.

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

Profitability underpinned by rising interest rates and increased lending volumes

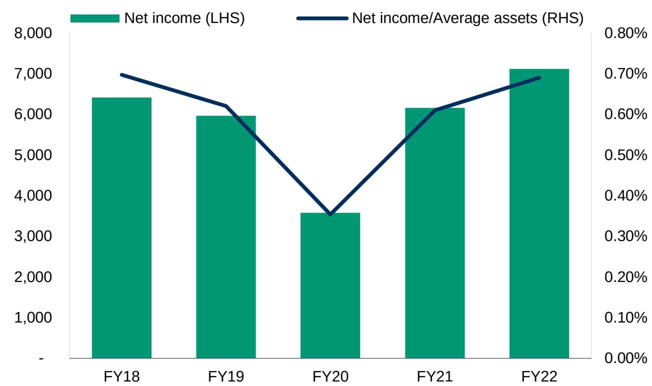
ANZ's cash profit was AUD6.5 billion in fiscal 2022, an increase of 5% from fiscal 2021, as home loan growth was restored combined with a pickup in net interest margins.

Net interest income rose 5% as lower margins for the year moderated some of the benefits from increased lending volumes. Group net interest margin on a cash basis decreased 1 basis point (bps) for the year to 1.63% but was up 10 bps to 1.68% in the second half of 2022, as the spread between lending and deposit rates widen along with gains from its replicating portfolio. ANZ reported that its exit NIM as of September 2022 was 1.8%, which suggests that the outlook for NIM in fiscal 2023 should be stronger than the average NIM for fiscal 2022 at 1.63%. However, further increases in margin from the report 1.8% might be more muted as the bank continues to face challenges from intense competition for mortgages, as well as elevated funding costs as depositors shift back towards term deposits and as low-cost funding provided by the Reserve Bank of Australia's (RBA) Term Funding Facility (TFF) matures.

We expect earnings to be directly impacted by rising inflation through higher operating expenses. The bank's operating expenses was up 6% in 2022, driven by technology investment spend, regulatory and compliance costs as well as wage inflation.

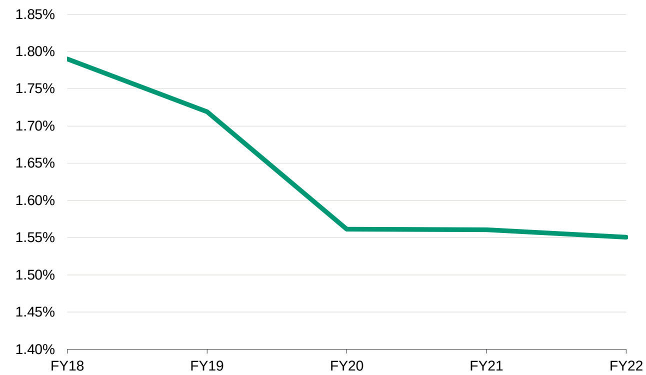
While ANZ took a small credit impairment charge in the second half through additional overlays for potential economic deterioration, overall for the year the bank had a net release of provisions totaling AUD232 million, though much more modest than the AUD567 million of provisions release in 2021. Looking ahead, we expect credit costs to normalize in 2023, which is likely to constrain earnings growth from higher margins.

Exhibit 3
Profitability supported by rising interest rates



Source: Bank disclosures, Moody's Investors Service

Exhibit 4
Rising rates will drive margins higher
Net interest margin



Source: Bank disclosures, Moody's Investors Service

Asset quality improved, as rising interest rates underpins an uncertain outlook

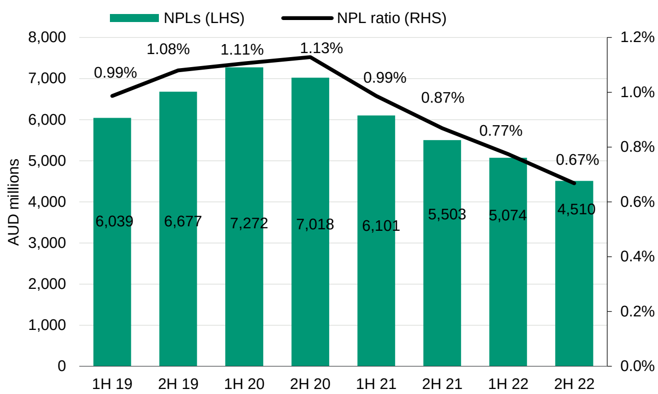
Non-performing loans, classified as Stage 3 under the accounting standards, fell 21bps to 0.65% at fiscal 2022 (Exhibit 5), following the end of pandemic-related restrictions and a rebound in economic activities.

Despite the improvement, high inflation and rising interest rates present risks to the asset quality outlook. We expect higher home loan payments as fixed-rate mortgages roll over onto higher interest rates, combined with higher living cost will constrain household finances and lead to an uptick in loan delinquencies. A broader slowdown in economic activities could raise asset risks for the commercial sector as well.

The current tightening monetary policy measures has also led to a decline in Australian house prices, after rising significantly over the last three years. A slowing housing market will raise the risk of credit losses, particularly for loans originated in the last 18 months, as it becomes more difficult for borrowers facing financial strain to sell their properties and repay loans without incurring a loss. However, we expect these risks to be low given the low average loan-to-value ratios across ANZ's home loan portfolio and the very low level of new high loan-to-value mortgage loans originated over the last two years.

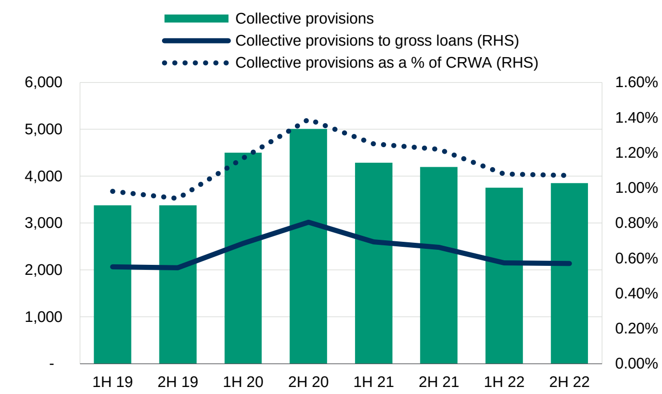
Given these risks, impairment charges is likely to increase but we expect the potential rise in credit costs to be manageable given the bank's healthy levels of loan loss provisions and solid capital position. The bank reported a collective provision balance of AUD3.9 billion (which includes AUD727m of management overlays) as at September 2022. Its provisioning coverage ratio measured as collective provisions as a share of credit risk-weighted assets remains elevated above pre-pandemic levels at 1.07%, providing a strong buffer against credit losses. Furthermore, ANZ's historically strong underwriting standards, substantial loan prepayments and low dynamic loan-to-value ratio (LVR) will help offset these risks. As at 30 September 2022, ANZ reported an average dynamic LVR of 48%, down from its September 2020 level of 56%. It also reported that 69% of borrowers were ahead of mortgage repayments.

Exhibit 5
Problem loans have fallen
Non-performing loans



Source: Bank disclosures, Moody's Investors Service

Exhibit 6
Provisions normalise as asset quality improves
Collective provision balance included additional management overlays of AUD727 million



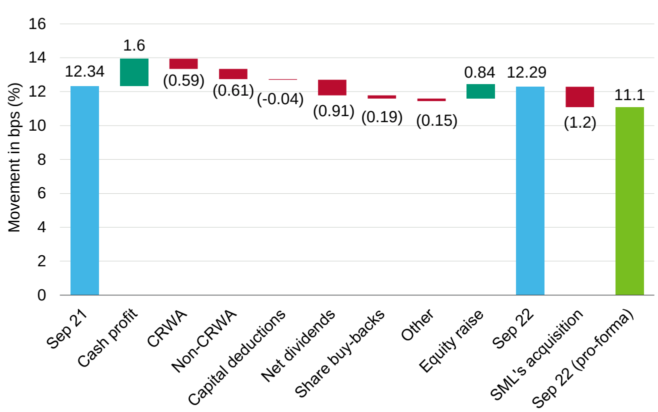
Source: Bank disclosures, Moody's Investors Service

Capital position remains strong, despite significant capital returns

ANZ's capitalization remains strong, the bank reported a Level 2 Common Equity Tier 1 (CET1) ratio of 12.2% as of December 2022, up from 11.6% a year ago as it raised AUD3.5 billion equity to partially fund the potential acquisition of Suncorp-Metway Limited (SML, A1/A1 Ratings under review, baa1).

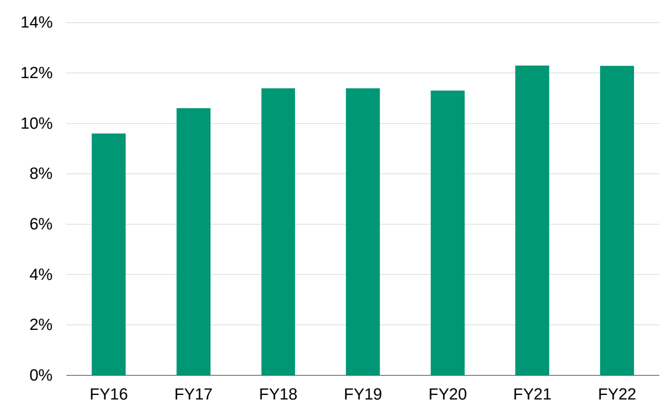
The bank's CET1 ratio would from drop from 12.3% for fiscal 2022 to 11.1% on a pro-forma basis taking into account of the acquisition, but still above regulatory minimum. The decline in the ratio reflects the return to shareholders of around AUD5 billion in capital through dividends and share buy-backs. It also reported higher non-credit risk weighted assets as interest risk in the banking book (IRRBB) risk-weighted assets rose due to higher swap rates, although this should mostly unwind over the next 2-3 years.

Exhibit 7
Capitalization falls amid capital returns
Common equity tier 1 capital ratio waterfall



Source: Bank disclosures, Moody's Investors Service

Exhibit 8
Capitalization remains within the bank's target operating range
Common equity tier 1 ratio



Source: Bank disclosures, Moody's Investors Service

Funding and liquidity profile continues to benefit from pandemic stimulus

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.

The bank's funding profile has improved with its use of deposits rising to 58% of total funding sources as at 30 September 2022, up from 52% in September 2019, as pandemic-related monetary and fiscal policy actions contributed to a surge in system deposits. Customer deposits grew 6.5%, outpacing the 4.5% growth in loans in fiscal 2022, although we expect deposit growth to slow in future periods as rising interest rate and inflationary pressure constrain household finances and trim savings.

ANZ's stable funding remains high, with the bank reporting a Net Stable Funding Ratio (NSFR) of 119% as at 30 September 2022. The bank has drawn approximately AUD20 billion from the TFF and this almost eliminated the need for the bank to access wholesale funding markets during the pandemic, lowering its funding costs. However, this funding cost benefit will reverse when majority of the funding matures by 2024.

ANZ's liquidity resources score of a3 is underpinned by significant reserves of high-quality liquid assets, with the bank reporting an average Liquidity Coverage Ratio (LCR) of 131% for fiscal 2022. This includes ANZ's use of the Reserve Bank's Committed Liquidity Facility (CLF) of AUD2.7 billion as of September 2022. The CLF expired on 1 January 2023.

Rating is supported by Australia's strong operating environment

Australia's Strong+ Macro Profile reflects the country's robust economic strength, institutions and governance strength, and low susceptibility to event risk. Our baseline scenario projects real GDP growth slowing to 1.9% in 2023 as higher interest rates constrain growth, before improving to 2.3% in 2024.

The Australian economy has continued to perform strongly after a period of fiscal and monetary stimulus provided to combat the dampening economic effects of COVID-19 related health measures. Very tight labour markets and strong economic growth, boosted by strong household consumption and high levels of public and private investment has resulted in the unemployment rate falling to a very low 3.5% as at November 2022. Rising interest rates, in response to high inflation is expected temper growth in 2023. High levels of household debt, combined with an increased debt burden as interest rates rise, are key economic vulnerabilities. Household debt relative to income remains high at 188.5% as at September 2022, and rising interest rates have led to national average house prices falling 8.4% from April 2022 to December 2022. Further improvement in banks' asset quality is unlikely as rising interest rates could reduce buffers built by borrowers or put some borrowers under financial pressure. However, low unemployment and low loan to value ratios on home loans, and small business loans which are typically secured by residential properties, should provide buffers to asset quality risk.

Australian banks' very strong pricing power has historically been supported by the high level of concentration in the banking sector. Net interest margins are expanding as interest rates rise, however, funding costs, will rise as banks begin to repay cheap funding provided by the central bank from 2023 onwards. This could constrain further net interest margin gains in 2023.

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-fund upcoming maturities well in advance.

ESG considerations

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

Exhibit 9

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

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 10
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-4	G-2
Moderately Negative	Highly Negative	Neutral-to-Low

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.

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. The group also faces industrywide moderate social risks related to societal trends – in particular, digitalization --- and the extent to which such measures could hurt earnings. 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 has incurred significant costs from customer remediation for past issues.

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 11

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	0.9%	aa2	↔	aa3	Quality of assets	Expected trend
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	Expected trend
Combined Solvency Score		a1		a1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	26.9%	baa2	↔	baa1	Term structure	Market funding quality
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	28.7%	a3	↔	a3	Quality of liquid assets	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 12

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
Subordinate	A3 (hyb)
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

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