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Australia and New Zealand Banking Group Ltd.

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Australia and New Zealand Banking Group Ltd.

SACP	a	+	Support	+2	+	Additional Factors	0

Anchor	bbb+	
Business Position	Strong	+1
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	+2

Issuer Credit Rating
AA-/Negative/A-1+

Major Rating Factors

Strengths:	Weaknesses:
• Highly likely to receive timely financial support from the Australian government, if needed. • Strong market position in the Australian and New Zealand retail and commercial banking sectors. • Conservative risk appetite, backed by a sound risk-management framework.	• Material dependence on domestic and offshore wholesale borrowing. • Exposed to risks from rising house prices, high private sector debt, and an uncertain global economic outlook.

Outlook: Negative

The negative outlook on Australia and New Zealand Banking Group Ltd. (ANZ) mirrors that on the sovereign rating on Australia (AAA/Negative/A-1+). There is a one-in-three likelihood that we will lower our long-term and short-term ratings on the bank in the next two years.

We expect that ANZ's earnings in the next two years will remain sufficient to absorb the elevated credit losses due to the COVID-19 pandemic and containment measures. We also expect that ANZ would maintain its common equity Tier 1 (CET1) and Tier 1 regulatory capital ratios at about the current levels.

We see a one-in-three possibility that COVID-19 and the resultant containment measures could heighten the risks to the Australian economy and banking sector. In such a scenario, we expect to assess our economic risk score within our Banking Industry Country Risk Assessment for Australia to have worsened by one category, and consequently apply higher risk weights in our capital analysis. In that case, ANZ's stand-alone credit profile (SACP) may weaken by one notch and, consequently, we would expect:

- To lower by one notch our ratings on each of the Tier-1 and Tier-2 regulatory capital instruments issued by ANZ; and
- To keep our issuer credit rating on ANZ and our ratings on senior debt issued by the group at the current level due to increased uplift from likely sovereign support to three notches, if other things remained unchanged.

Downside scenario

We expect to lower our long-term issuer credit rating on ANZ and its core operating subsidiary (ANZ Bank New Zealand Ltd.) as well as our long-term ratings on senior debt issued by these entities to 'A+' if we were to lower our long-term local currency issuer credit rating on Australia to 'AA+'. We also expect to lower our short-term ratings on ANZ and its core operating subsidiary to 'A-1' in that scenario. This is because we consider that a lower rating on the sovereign would reflect its slightly reduced financial capacity to provide timely financial support to ANZ and other systemically important institutions in Australia, if needed.

Upside scenario

We expect to revise the outlook on ANZ to stable if we were to revise the outlook on Australia to stable.

Rationale

Our ratings on ANZ reflect the bank's strong market position and business franchise in key retail market segments in Australia and New Zealand. We believe the bank's core business lines benefit from its established and long-standing franchise and well-developed business and risk-management capabilities in the two countries. Furthermore, we expect these strengths to continue to help the bank achieve strong and stable earnings over the longer term following a short-lived fall in earnings due to the significant but temporary economic downturn caused by COVID-19 and containment measures. ANZ's strong capitalization, robust key earnings and asset quality metrics relative to global peers', and adequately managed funding and liquidity risk also support our view of its credit profile. The ratings on ANZ also benefit from our expectation that the Australian government is highly likely to provide timely financial support to the bank, if needed. These strengths moderate the bank's material dependence on domestic and offshore wholesale funding and ongoing risks from still-high property prices and private sector debt.

ANZ is one of the four major banking groups in Australia. The other three are Commonwealth Bank of Australia (AA-/Negative/A-1+), National Australia Bank Ltd. (AA-/Negative/A-1+), and Westpac Banking Corp. (AA-/Negative/A-1+).

We assess the group SACP of ANZ (and the SACP of the operating holding company Australia and New Zealand Banking Group Ltd.) as 'a'.

Anchor: Resilient economy, conservative regulations, and risk appetite mitigate COVID-19 challenges

The starting point for our ratings on ANZ--similar to all other banks operating predominantly in Australia--reflects our assessment of Australia's macroeconomic conditions. This is because about 60% of ANZ's credit exposure is in its Australian home market and 20% in New Zealand, with the balance in Asia Pacific, Europe, and the Americas. We expect the geographic composition of its banking operations to remain largely unchanged in the next two years.

Australia benefits from being a wealthy, open, and resilient economy that has performed relatively well during and following negative cycles and external shocks. Australia has to date successfully contained the spread of COVID-19 after a second wave in the second most populous state of Victoria. We believe the national economy has commenced its recovery. This follows the first recession in the country in almost 30 years, triggered by the COVID-19 outbreak and containment measures. We expect credit growth to remain muted despite an accommodative monetary policy. We believe credit losses will ease to levels close to our expected long-term average by 2023 after a significant rise from a historical low level in 2019. Following a modest correction in property prices during 2020, growth has resumed on the back of an expected economic recovery. We believe economic growth and low interest rates will continue to drive property price appreciation in the next two years. Nevertheless, high house prices and household debt, and Australia's external weaknesses--against the backdrop of global economic uncertainty--expose the banks to elevated risk of a substantial rise in credit losses in the next two years.

We consider that Australia's prudential regulatory standards are conservative. We also believe that the structure of the banking industry supports stability--a small number of strong retail and commercial banks dominate the sector. Low interest rates, weak credit growth, and a drop in fee income will curtail bank earnings. Still, bank earnings should remain sufficient to absorb higher credit losses. Substantial monetary support from the Reserve Bank of Australia (RBA) has alleviated funding and liquidity risks for the Australian banks. Nevertheless, the Australian banking system's material dependence on external borrowings exposes the banks to a disruption in access to funding as well as a rise in borrowing costs.

Table 1

Australia and New Zealand Banking Group Ltd.--Key Figures

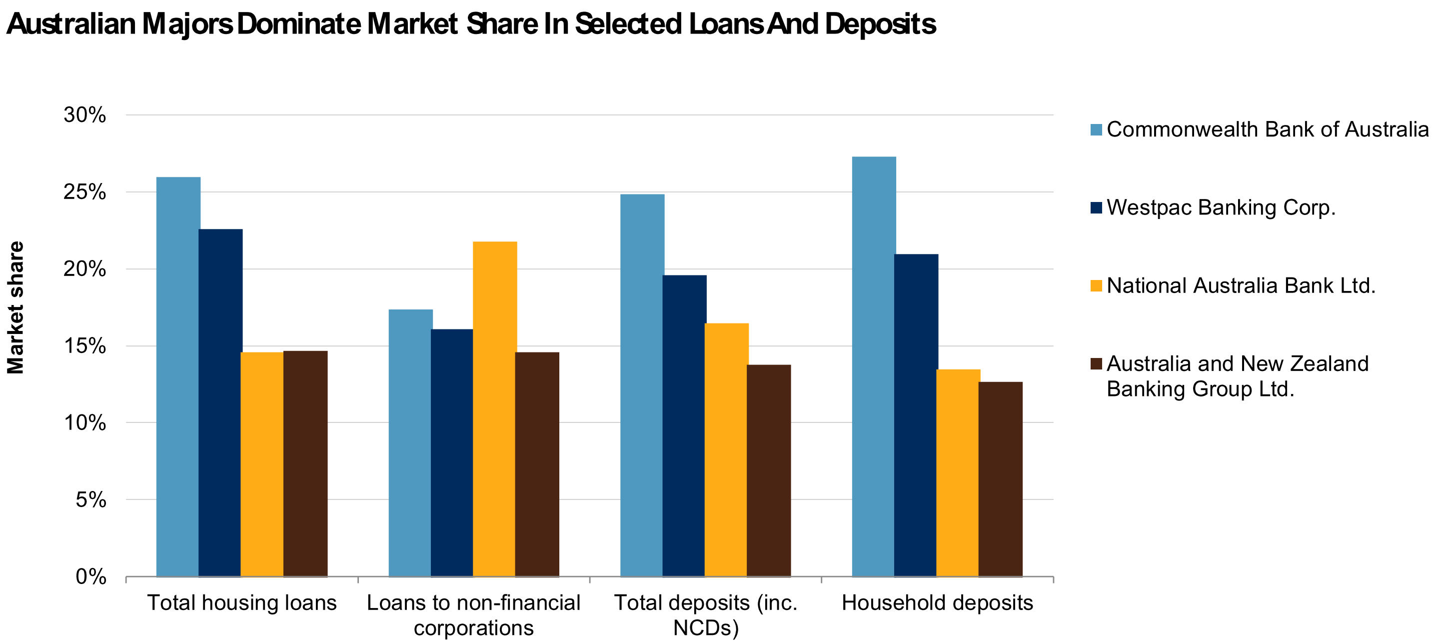
	--Year ended Sept. 30--				
(Mil. A$)	**2020**	**2019**	**2018**	**2017**	**2016**
Adjusted assets	1,037,907	975,357	897,640	852,392	871,541
Customer loans (gross)	622,074	618,767	608,380	584,091	580,035
Adjusted common equity	50,738	47,460	46,240	41,437	39,804
Operating revenues	18,459	18,648	20,544	21,097	21,951
Noninterest expenses	9,222	8,994	10,245	10,177	11,474
Core earnings	4,292	6,165	6,703	6,716	5,830

Business position: Strong market share, strong franchise, and good management support earnings stability

We believe that ANZ's strong position in its core business of retail and commercial banking in Australia and New Zealand should continue to support the bank's credit profile.

We expect more than 60% of ANZ's credit exposures will remain focused in Australia, where the bank has a strong market share of about 15% of residential mortgages (ranked third) and 14% of customer deposits (ranked fourth) as of Dec. 31, 2020; these figures have remained relatively unchanged in recent years (see chart 1). We believe that ANZ should also retain its strong market position in New Zealand, where it is by far the largest bank in the country, with a market share of about 29% of net loans and advances--almost 50% larger than the next biggest bank.

Chart 1



NCD--Negotiable certificate of deposit. Source: Australian Prudential Regulation Authority, as of Dec. 31, 2020.

Despite a few unique characteristics associated with each of the four major Australian banks, the differences in their business profiles at the current rating level are relatively minor, in our view. That is, these banks are increasingly focusing on their retail and commercial banking within Australia and New Zealand. That said, ANZ's (and the other Australian major banks) overall business position--including its revenue stability and franchise strength--is stronger than those of the smaller, second-tier banks with a narrower geographic and product focus.

In our view, the above-system average growth in ANZ's Australian residential mortgage portfolio that has followed systems improvements at the bank supports its business stability. As of Dec. 30, 2020, ANZ's total Australian residential housing loan growth was well ahead of system growth at 6.3% versus system growth of 1.9% (Australian

Prudential Regulation Authority (APRA) monthly banking statistics). The growth was driven primarily by Australian owner-occupier home loans.

We see ANZ's divestment of its noncore banking activities--which in our view were somewhat peripheral to ANZ's core strengths--as a marginal credit positive for the ANZ group.

We believe that technology could disrupt the competitive landscape in Australia, similar to most other banking markets globally. In particular, we believe the COVID-19 pandemic will continue to accelerate the adoption of financial technology in Australia (See "Tech Disruption In Retail Banking: Australia's Big Banks Hold Their Ground As Tech Takes Center Stage," published June 2, 2020). We believe the major Australian banks' dominant market positions, and significant technology investment programs, make them well placed to defend against competition from new tech-enabled market entrants. We expect ANZ, and the other major Australian banks, will leverage technology developments, through both in-house tech investment and collaboration with technology companies, to improve their efficiency and expand their product offerings. We believe that ANZ is targeting to accelerate its investment in information technology because of a change in customer behavior. These customer changes encompass a move from branch to digital and cash to card.

Table 2

Australia and New Zealand Banking Group Ltd.--Business Position

	--Year ended Sept. 30--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	18,459.0	18,785.0	21,116.0	21,273.0	21,951.0
Commercial & retail banking/total revenues from business line	98.1	96.0	84.7	85.5	80.5
Insurance activities/total revenues from business line	0.4	0.7	1.5	1.5	3.8
Asset management/total revenues from business line	1.5	1.4	1.2	1.5	4.2
Other revenues/total revenues from business line	(0.0)	2.0	12.6	11.5	11.2
Return on average common equity	5.9	9.9	10.8	11.0	9.9

Capital and earnings: Good risk-adjusted capitalization should persist despite a material hit to earnings because of COVID-19.

We forecast that ANZ will maintain a risk-adjusted capital (RAC) ratio of 11.0%-11.5% in the next two years, consistent with its Sept. 30, 2020, value of 11%. In our view, the economic risk trend for banks operating in Australia is negative. There is a one-in-three likelihood that we would apply higher risk weights in our capital analysis to reflect higher economic risks. In that case, we could form a view that ANZ's RAC ratio is likely to remain below 10%, and consequently, that the bank's capital level is no longer strong.

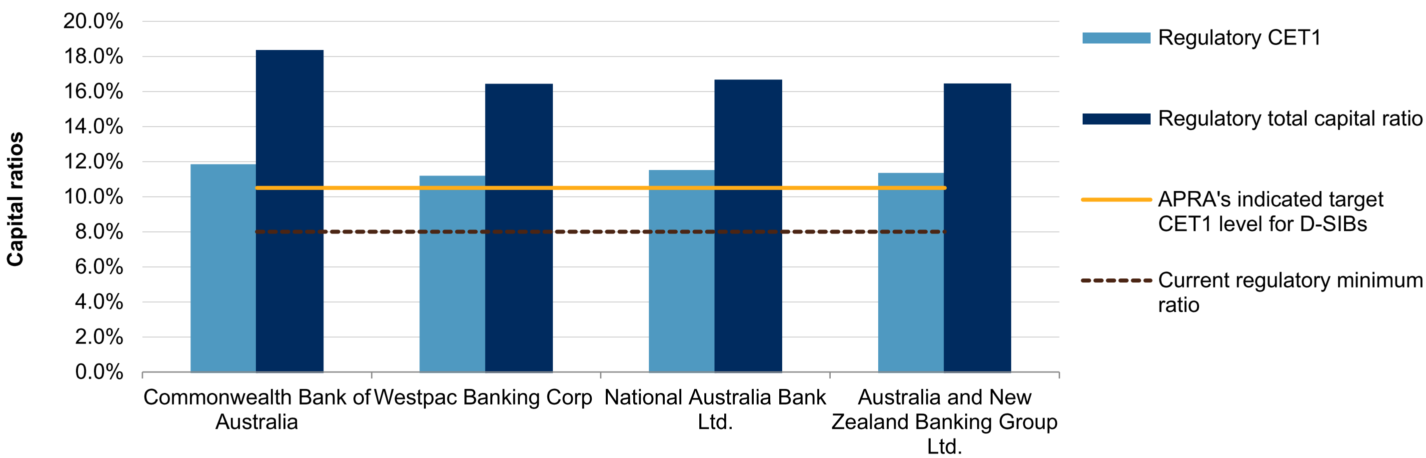
In line with the broader Australian banking system, we forecast ANZ's loan growth will be about 2.5% in fiscal 2021 before rising to about 5% in the subsequent year, interest margins will continue to be under pressure, and credit losses will rise materially before easing to levels close to our expected long-term average by 2023. In the next two years, we expect earnings to remain weaker than the historical average due to a combination of higher credit losses, lower loan growth, and Australia's historically low interest rates. Nevertheless, we assess the bank will retain significant headroom in its earnings to absorb a substantial increase in credit losses beyond our forecasts.

ANZ's CET1 ratio was 11.3% as of Sept. 30, 2020, which is well in excess of APRA's minimum regulatory capital requirement of 8%, including the domestic systemically important banks (D-SIB) buffer of 1.0% and capital conservation buffer of 2.5%, and above the CET1 target of 10.5% for "unquestionably strong." We expect that ANZ will maintain its CET1 ratio at about this level over the short term given uncertain operating conditions. Nevertheless, we believe that as conditions improve in the next two to three years , ANZ will return material excess capital relative to its internal capital needs and prudential capital requirements.

ANZ remains well placed to meet the final capital requirements that the Reserve Bank of New Zealand (RBNZ) announced on Dec. 5, 2019, for its New Zealand subsidiary, ANZ Bank New Zealand Ltd., particularly given the seven-year transition period, which the RBNZ has delayed by one year due to the COVID-19 outbreak and containment measures, now starting July 1, 2021. We believe ANZ has significant flexibility to strengthen its regulatory capital ratio further, if needed, through a combination of reduced dividend payout, increased dividend reinvestment, or new capital injection.

Chart 2

Australian Majors Are Strongly Capitalized

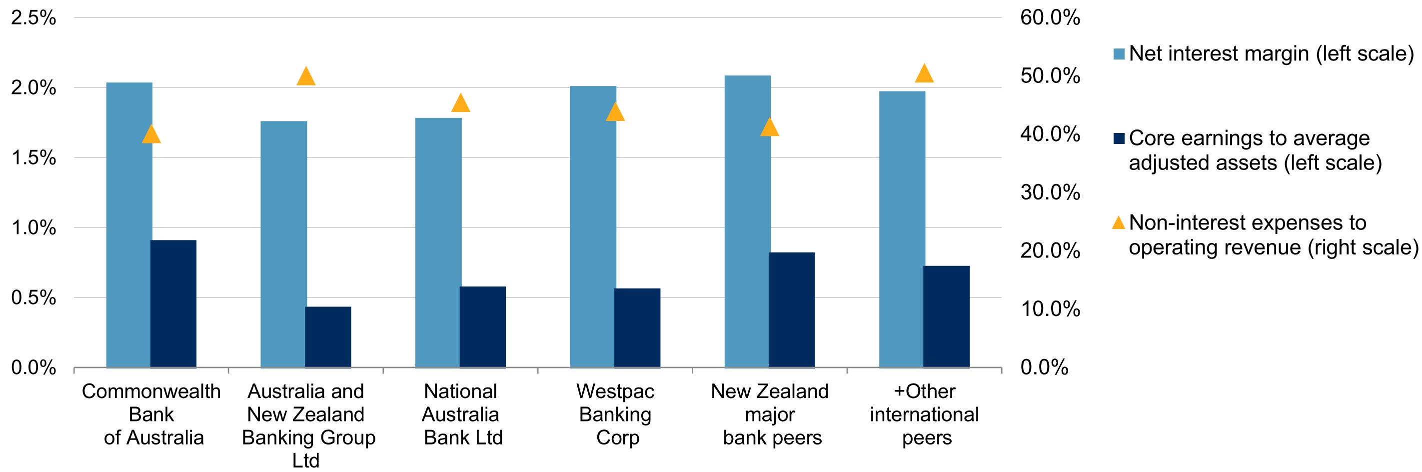


D-SIBs--Domestic systematically important banks. CET1--Common equity tier 1. Source: S&P Global Ratings estimates and regulatory disclosures as of Sept. 30, 2020.

ANZ's capital base consists mainly of common share capital and retained earnings. At the same time, ANZ, along with the other Australian major banks, remains marginally more reliant on hybrid capital instruments, compared with a number of other banks internationally.

Chart 3

Profitability Of Majors Is In Line With International Peers



+Other international peers include Toronto-Dominion Bank (AA- /Stable/A-1+), Bank of Montreal (A+/Stable/A-1), Bank of Nova Scotia (A+/Stable/A-1), DBS Bank Ltd. (AA-/Stable/A-1+), Nordea Bank Abp (AA-/Negative/A-1+),Banco Santander S.A. (A/Negative/A-1) and Banco Bilbao Vizcaya Arentaria S.A. (A-/Negative/A-2). Source: S&P Global Ratings estimates year to end metrics.

In our view, ANZ's earnings capacity remains good by international standards. This is despite the bank's core earnings-to-adjusted assets ratio dropping to 0.43% for the financial year ending Sept. 30, 2020, reflecting increased loan loss provisions (see chart 3).

Table 3

Australia and New Zealand Banking Group Ltd.--Capital And Earnings

	--Year ended Sept. 30--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	13.2	13.2	13.4	12.6	11.8
Adjusted common equity/total adjusted capital	86.2	85.3	85.1	82.9	81.5
Net interest income/operating revenues	76.1	76.9	70.6	70.5	68.8
Fee income/operating revenues	12.6	13.8	18.2	19.2	21.3
Market-sensitive income/operating revenues	9.8	6.9	8.1	6.8	3.3
Cost to income ratio	50.0	48.2	49.9	48.2	52.3
Preprovision operating income/average assets	0.9	1.0	1.1	1.2	1.2
Core earnings/average managed assets	0.4	0.6	0.7	0.7	0.6

N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Australia and New Zealand Banking Group Ltd.--Risk-Adjusted Capital Framework Data

(Mil. A$)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	220,058	7,765	4	5,138	2
Institutions and CCPs	84,654	12,898	15	13,547	16
Corporate	372,568	188,601	51	279,055	75
Retail	435,424	136,727	31	158,621	36
Of which mortgage	389,307	110,563	28	118,470	30
Securitization§	13,221	2,125	16	2,644	20
Other assets†	10,967	4,375	40	18,117	165
Total credit risk	1,136,892	352,491	31	477,122	42
Credit valuation adjustment					
Total credit valuation adjustment	--	7,546	--	9,810	--
Market Risk					
Trading book market risk	--	8,241	--	10,251	--
Total market risk	--	8,241	--	10,251	--
Operational risk					
Total operational risk	--	47,563	--	36,750	--
(Mil. A$)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	429,388	--	533,933	100
Total Diversification/ Concentration Adjustments	--	--	--	(44,414)	(8)
RWA after diversification	--	429,388	--	489,518	92
(Mil. A$)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		56,481	13.2	58,861	11.0
Capital ratio after adjustments‡		56,481	13.2	58,861	12.0

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of 'Sep. 30 2020', S&P Global Ratings.

Risk position: Credit losses likely to ease closer to long-term average following a COVID-19 driven temporary rise

In line with our forecast for the Australian banking system, we expect that ANZ's credit losses will ease to levels close to our expected long-term average by 2023 after a significant rise from a historical low level in 2019 due to COVID-19. The substantial support package from the government has limited the damage to the economy and bank asset quality. Nevertheless, losses from households and businesses could escalate once the fiscal support from the government recedes and the moratorium period on loan repayments ends.

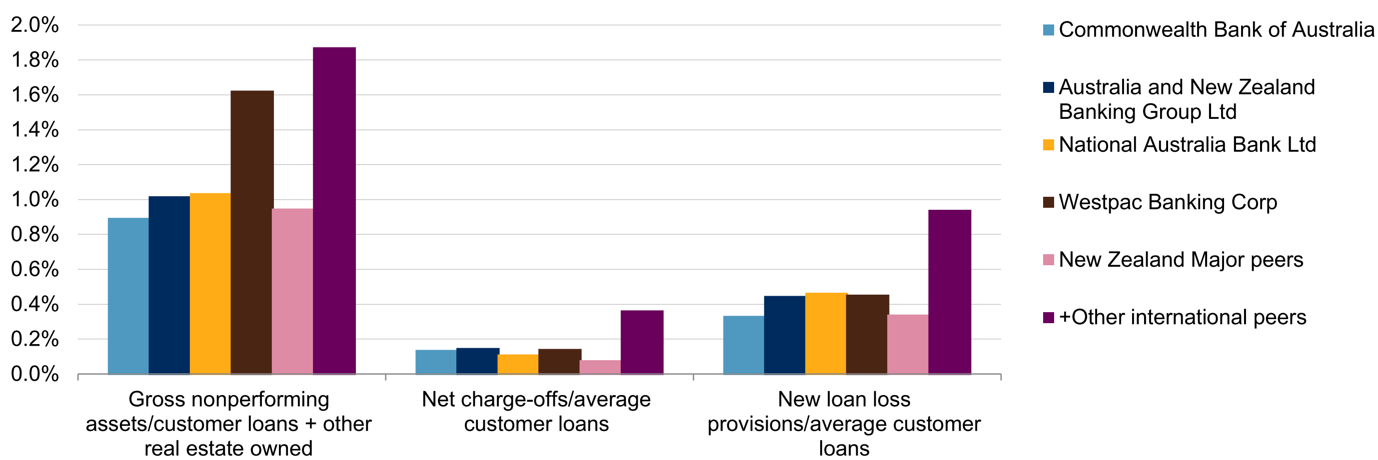
We expect that ANZ will maintain a conservative risk appetite despite the drop in earnings due to COVID-19. Even though current growth in residential mortgage loans are above system we believe that ANZ's growth appetite is moderate and broadly in line with system trends. In our opinion, the group's annual report and Pillar 3 disclosures are transparent and allow good visibility into ANZ's underlying risk exposures and earnings generation. In addition, retail products dominate ANZ's balance sheet and the group does not have an excessive exposure to derivatives.

We expect ANZ's lending portfolio to remain well diversified by geography, customers, and industry. About 58% of ANZ's lending in Australia is to the housing sector, which is broadly in line with the concentration shown by ANZ's Australian major bank peers. Furthermore, banking activities are diversified across retail, commercial, and institutional banking. We believe that the banking activities are relatively simple and exposures to higher-risk activities are relatively low.

Compared with its peer Australian major banks, ANZ also has a larger proportion of its assets in New Zealand, a banking system we consider to be marginally riskier than that in Australia.

Chart 4

Strong Asset Quality Relative To International Peers



+Other international peers include Toronto-Dominion Bank (AA- /Stable/A-1+), Bank of Montreal (A+/Stable/A-1), Bank of Nova Scotia (A+/Stable/A-1), DBS Bank Ltd. (AA-/Stable/A-1+), Nordea Bank Abp (AA-/Negative/A-1+),Banco Santander S.A. (A/Negative/A-1) and Banco Bilbao Vizcaya Arentaria S.A. (A-/Negative/A-2). Source: S&P Global Ratings estimates year to end metrics.

We believe that ANZ's lending and underwriting standards are conservative, as evidenced by low loan-loss provisions and nonperforming assets, which are at levels broadly comparable with its Australian major bank peers (see chart 4). In recent years, ANZ's credit losses have been significantly below our expectations through the cycle, though Australian banks benefited from a long run of benign economic conditions.

We expect the implementation of the recommendations of the Royal Commission to strengthen the risk culture of Australian financial institutions, including ANZ. Stronger risk management should help offset pressure on ANZ's credit profile because of lower earnings due to more rigorous governance and regulation and subdued credit growth.

We also do not foresee a significant amount of additional risk for ANZ than what we already consider in the bank's capital and earnings assessment. As of Sept. 30, 2020, the bank's regulatory capital requirements for interest rate risk in the banking book represented about 3.2% of its total risk-weighted assets, similar to Australian peer banks.

In our view, the ongoing simplification of ANZ's business portfolio with greater focus on retail and commercial banking within Australia and New Zealand has reduced the bank's exposure to relatively risky geographies and businesses. Within Asia, ANZ is now focusing mainly on institutional banking. During the last financial year new impaired assets within the institutional banking division increased and related primarily to 1) a single name exposure based in Singapore and 2) an adjustment to nonlending equity accounted assets where the value in use calculations did not support the carrying value of the assets. The quantum of the increase in these new impaired assets are still within our tolerance levels for ANZ at the current rating level.

Table 5

Australia and New Zealand Banking Group Ltd.--Risk Position

	--Year ended Sept. 30--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Total managed assets/adjusted common equity (x)	20.5	20.7	20.4	21.7	23.0
New loan loss provisions/average customer loans	0.4	0.1	0.1	0.2	0.4
Net charge-offs/average customer loans	0.1	0.1	0.2	0.3	0.3
Gross nonperforming assets/customer loans + other real estate owned	1.0	0.9	0.8	0.9	1.0
Loan loss reserves/gross nonperforming assets	79.0	60.8	68.7	71.2	71.2

N/A--Not applicable. RWA--Risk-weighted assets.

Funding and liquidity: Monetary support from the central bank has allayed funding and liquidity risks due to dislocation of financial markets

We believe the substantial monetary support package from the RBA has allayed funding and liquidity risks posed by the financial market dislocation following the COVID-19 outbreak. As of Sept. 30, 2020, ANZ had drawn its entire A$12 billion of its initial allowance under the RBA's term funding facility. As of Oct. 1, 2020, ANZ's supplementary allowance and additional allowance stood at A$8 billion and A$4.4 billion, respectively. This compares with A$27 billion in wholesale debt maturing in fiscal 2021.

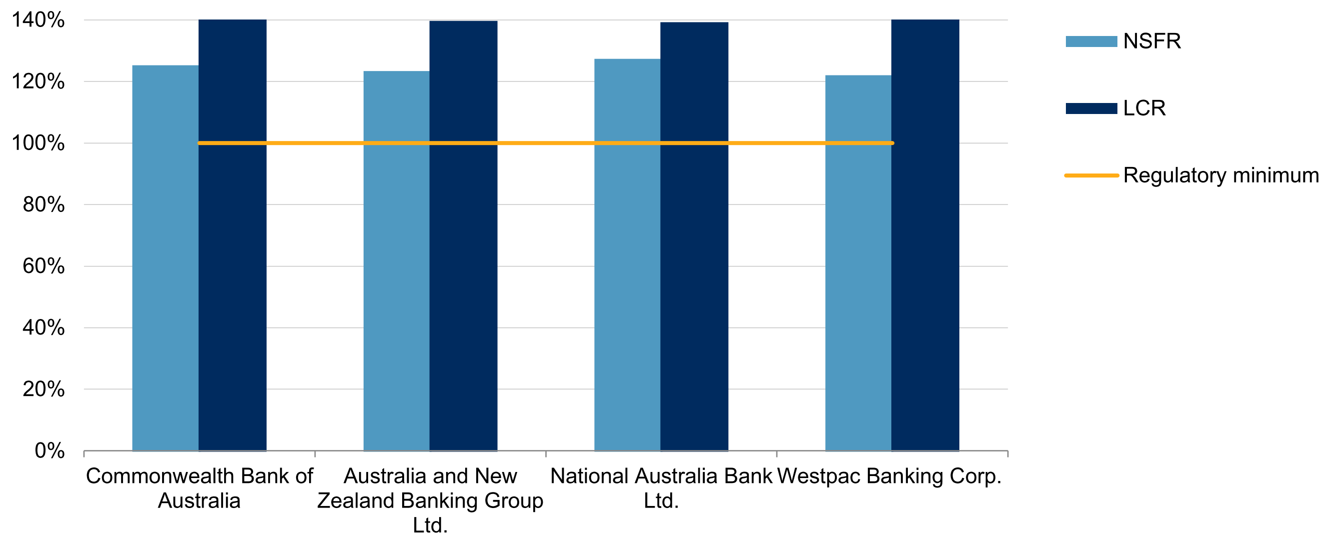
In our view, ANZ adequately manages its funding and liquidity risks, notwithstanding the structural funding weaknesses inherent to the Australian banking system. ANZ's funding metrics are broadly in line with those of the other Australian major banks, and banks in Sweden and Norway--countries with banking industry profiles similar to Australia.

Along with the other Australian major banks, ANZ's share of funding received from core customer deposits has improved leading to an overall reduction in ANZ's funding gap. ANZ's wholesale funding is diversified by investors, geography, and maturities, which should help the bank to maintain access to funding if there is a disruption in one of these sources.

In our view, the Australian major banks' strong funding franchises domestically and internationally support their funding stability. Indeed, we expect that if the Australian banking sector experienced a systemic funding problem a likely "flight to quality" would partly mitigate its impact on the Australian major banks. Our funding metrics include ANZ's loan-to-deposit ratio (93%), stable funding ratio (102%), and short-term wholesale funding to total funding base (22%), all as of Sept. 30, 2020. As of Sept. 30, 2020, the group's net stable funding ratio was 124%, compared with a regulatory minimum of 100% (see chart 5).

Chart 5

Australian Majors Have Adequate Buffer In Regulatory Funding Metrics



NSFR--Net stable funding ratio. LCR--Liquidity coverage ratio (three-month average). Source: Regulatory disclosures as of Sept. 30, 2020.

ANZ's liquidity is adequate in our opinion, and we believe that the bank should be able to survive at least a six-month period of funding disruption. From a quantitative perspective, ANZ and the other Australian major banks have weaker liquidity ratios relative to other international peers. This reflects in part the limited availability of government debt in Australia. As of Sept. 30, 2020, ANZ's ratio of broad liquid assets to short-term wholesale funding was 1.25x up from 1.06x, one year earlier as liquid assets increased while short-term wholesale funding fell, both impacted by COVID-19. In our opinion, access to the committed liquidity facility (CLF) from the RBA should boost ANZ's on-balance liquidity, if needed. The RBA has set the CLF limit for ANZ at about A$36 billion for calendar 2020. ANZ's average liquidity coverage ratio for the quarter ended Sept. 30, 2020, was 139% well in excess of the regulatory minimum of 100%.

In our opinion, ANZ manages its liquidity well by conducting specific stress tests on a routine basis. The tests look to identify the timeframe over which high-quality liquid assets could survive under various stress liability run-off scenarios.

Table 6

Australia and New Zealand Banking Group Ltd.--Funding And Liquidity					
	--Year ended Sept. 30--				
(%)	**2020**	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	67.5	66.4	64.9	65.3	63.4
Customer loans (net)/customer deposits	111.7	120.2	124.8	125.6	128.5
Long-term funding ratio	79.8	81.0	81.6	81.0	79.8
Stable funding ratio	101.5	96.7	94.0	92.4	95.7
Broad liquid assets/short-term wholesale funding (x)	1.2	1.1	0.9	0.9	1.0
Net broad liquid assets/short-term customer deposits	8.1	1.9	(2.2)	(4.2)	0.6
Short-term wholesale funding/total wholesale funding	65.0	59.3	55.2	57.2	57.8

Support: Expected timely financial support from the Australian government enhances creditworthiness

Our issuer credit rating on ANZ is two notches above the bank's SACP, reflecting our view that the bank is highly likely to receive timely financial support from the Australian government, if needed. This reflects our view that:

- ANZ is of high systemic importance to the Australian economy and financial system. ANZ has a substantial 14% of household deposits and 15% of residential mortgages. In our view, the bank plays a material role in sourcing offshore funding that supports economic activity in the country. In addition, ANZ is strongly interconnected with the three other major banks in Australia.
- The Australian government remains highly supportive of the private sector banks in the country.

Additional rating factors:

We notch our ratings on ANZ and its core banking subsidiaries' hybrid and nondeferrable subordinated debt instruments off ANZ's group SACP of 'a'. This is because we expect that any financial support for any of the major Australian banks, if needed, is unlikely to extend to these instruments.

The issue ratings on ANZ's Basel II nondeferrable subordinated debt are 'A-', or one notch below ANZ's group SACP, reflecting subordination to the senior debt in liquidation. The issue ratings on ANZ's Basel III nondeferrable subordinated debt are 'BBB+', or two notches below ANZ's group SACP; the additional notch is because such instruments contain a contingency clause that requires mandatory conversion into common equity or a write-down of principal on the activation of a nonviability trigger.

The issue ratings on ANZ's Basel III-compliant hybrid capital instruments are 'BBB-', or four notches below the group SACP, reflecting one notch for subordination in liquidation, two notches for the risk of partial or untimely payment, and one notch for a contingency clause that requires the mandatory conversion of such instruments into common equity on the activation of a nonviability trigger.

Environmental, social, and governance

We see ESG factors for ANZ to be broadly in line with those for industry and domestic peers. In our view, ANZ has a comprehensive, well-developed risk management and governance framework across the group's activities. We expect ANZ's strong business franchise and financial strength to help it absorb potential financial penalties and customer remediation costs associated with governance shortfalls that have emerged in the practices and operations of major

Australian banks in the past three years.

Many Australian banks faced criticisms for issues such as overcharging customers, nonadherence to responsible lending standards, or failure to timely report suspicious transactions to the financial crimes regulator. We believe policymakers have increasingly called for greater penalties for such lapses, at least partly on the basis that these profitable banks must meet community expectations.

ANZ, along with other Australian banks, have offered moratoriums on home and business loan repayments to borrowers that face hardship from COVID-19 and its containment measures. We consider these measures could help the bank rebuild trust within the community. Significant costs to remedy past lapses have affected earnings of ANZ and the other major Australian banks. Continued governance failures could make ANZ and its domestic peers less attractive to the equity and debt investors that are more sensitive to the ESG factors, in our view.

We see environmental factors as less relevant (than social and governance factors) to the creditworthiness of ANZ. The mining sector accounts for only about 1% of the total domestic lending by the Australian banking sector. Still, we believe ANZ is indirectly exposed to the environmental factors because it operates in an economy where the commodities sector is significant. Evolution of domestic and global environment standards and legislation, and changing customer preferences leading to a transition toward less carbon intensive forms of energy, could weaken the broader economy and consequently the bank's lending portfolio.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Criteria | Financial Institutions | Banks: Assessing Bank Branch Creditworthiness, Oct. 14, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

client (as defined in Chapter 7 of the Corporations Act).

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of February 16, 2021)*

Australia and New Zealand Banking Group Ltd.	
Issuer Credit Rating	AA-/Negative/A-1+
Certificate Of Deposit	
Foreign Currency	AA-/A-1+
Commercial Paper	
Foreign Currency	A-1+
Junior Subordinated	BBB-
Senior Unsecured	A-1+
Senior Unsecured	AA-
Subordinated	BBB+
Subordinated	A-
Issuer Credit Ratings History	
07-Apr-2020	AA-/Negative/A-1+
09-Jul-2019	AA-/Stable/A-1+
07-Jul-2016	AA-/Negative/A-1+
Sovereign Rating	
Australia	AAA/Negative/A-1+
Related Entities	
ANZ Bank New Zealand Ltd.	
Issuer Credit Rating	AA-/Negative/A-1+
Certificate Of Deposit	
Local Currency	AA-/A-1+
Preferred Stock	BBB-
Senior Unsecured	A-1+

Ratings Detail (As Of February 16, 2021)*(cont.)	
Senior Unsecured	AA-
ANZ New Zealand (Int'l) Ltd. (London Branch)	
Senior Unsecured	AA-
Australia and New Zealand Bank (China) Co. Ltd.	
Issuer Credit Rating	A+/Negative/A-1
Australia and New Zealand Banking Group Ltd. (London Branch)	
Junior Subordinated	BBB-
Senior Unsecured	AA-
Australia and New Zealand Banking Group Ltd.(New York Branch)	
Senior Unsecured	AA-

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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