FitchRatings



# Australia and New Zealand Banking Group Limited

## Key Rating Drivers

**Junior Debt Buffers:** Australia and New Zealand Banking Group Limited's (ANZ) Long-Term Issuer Default Rating (IDR) is notched up once from its Viability Rating (VR) to reflect the build-up of junior debt buffers to address loss absorbing capacity (LAC) requirements. The Australian regulator, the Australian Prudential Regulation Authority (APRA), sized the requirement to reduce the risk of taxpayer funds being needed to recapitalise a bank on resolution, thus protecting third-party senior creditors.

ANZ's VR is in line with the implied VR, underpinned by a strong business profile and sound financial profile. The Stable Outlook reflects Fitch Ratings' view that ANZ has sufficient headroom in its financial metrics to maintain its current ratings, even in a scenario that is moderately weaker than our base case.

**Improved Economic Growth:** We anticipate a gradual improvement in economic conditions in Australia and New Zealand over the next two years, driven by easing monetary policy. The lingering effects of high interest rates will probably lead to a moderate rise in unemployment in the short term, although a sharp deterioration in asset quality is unlikely. Our operating environment (OE) assessment captures the susceptibility of highly leveraged households to abrupt interest-rate hikes, resulting in a score at the lower end of the 'aa' category.

**Strong Market Positions:** The consolidated ANZ group is Australia's fourth-largest bank with around 16% of system assets at end-2024. It also operates the largest bank in New Zealand, ANZ Bank New Zealand Limited (A+/Stable/a), which has around 30% of total system assets. The strong market positions drive the 'aa-' business profile score, which is above the implied 'a' category score.

**Remediation Programme Lengthened:** The positive outlook on ANZ's risk-profile score of 'a+' has been revised to stable. APRA has imposed a further AUD500 million of operational capital risk charge since August 2024, bringing the total to AUD1 billion. We believe it is less likely the capital charges will be removed within the next two years and previously noted the removal of the capital risk charge as a key trigger before the risk profile score can be raised.

**Asset Quality to Weaken Modestly:** We expect the stage 3 loan/gross loan ratio to weaken modestly at the end of the financial year to September 2025 (FYE25), from 0.8% at FYE24, due to the lagged impact of higher interest rates. Rate cuts should result in the ratio declining in FY26, with the four-year average remaining below 1%. This is consistent with the 'aa-' asset-quality score. Provisioning levels and high collateral coverage in the loan portfolio should limit any losses.

**Earnings to Stabilise:** We expect ANZ's operating profit/risk-weighted assets (RWAs) to stabilise at around 2.1% over the next two years, following a period of pressure from intense competition, rising funding costs, and elevated investment and acquisition costs.

**Sound Capital Buffers:** We expect ANZ's common equity Tier 1 (CET1) ratio, which was 11.6% at end-2024, to remain comfortably above regulatory minimums. We anticipate the ratio to be maintained at above 11.5% in the medium term.

**Improved Funding Profile:** We have revised the funding and liquidity score to 'a+' from 'a' to reflect the significant improvement in ANZ's funding metrics over more than a decade. We expect the loan/customer deposit ratio to stabilise around current levels, with loan and deposit growth largely matching. ANZ's reasonable liquidity management and funding plans offset the risk associated with the bank's reliance on offshore wholesale markets for part of its funding.

## Ratings

| | |
|---|---|
| **Foreign Currency** | |
| Long-Term IDR | AA- |
| Short-Term IDR | F1+ |
| Viability Rating | a+ |
| Government Support Rating | a |
| **Sovereign Risk** | |
| Long-Term Foreign-Currency IDR | AAA |
| Long-Term Local-Currency IDR | AAA |
| Country Ceiling | AAA |
| **Outlooks** | |
| Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Foreign-Currency IDR | Stable |
| Sovereign Long-Term Local-Currency IDR | Stable |

## Highest ESG Relevance Scores

| | |
|---|---|
| Environmental | 2 |
| Social | 3 |
| Governance | 3 |

## Applicable Criteria

Bank Rating Criteria (March 2025)

## Related Research

Australian Major Banks: Q&A 1Q25 (March 2025)

Global Economic Outlook (March 2025)

Australian Major Banks' Funding Profiles Stabilise after Decade of Improvement (March 2025)

DM100 Banks Tracker (December 2024)

Asia-Pacific Developed Market Banks Outlook 2025 (November 2024)

Comparing Large Australian and Singaporean Banks: Fundamental Credit Strength Supports High Ratings (July 2024)

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## Rating Sensitivities

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

***Long-Term IDR***

ANZ's Long-Term IDR would be downgraded if the VR is downgraded. It may also be downgraded if ANZ's junior debt buffers are no longer envisaged by the regulator to be sufficient to protect senior creditors in a resolution event.

***VR***

The VR could be downgraded if the OE weakens sharply such that the OE score is reassessed to the 'a' category, from 'aa-', as this would probably result in a reassessment of most other key rating drivers. We believe this is unlikely but could occur if there is a sharp and structural decline in GDP growth, resulting in a rapid increase in unemployment.

The rating may be downgraded even if the OE score remains unchanged if a combination of the following occurs:

- the four-year average of stage 3 loans/gross loans is likely to be sustained around or above 2.0% (FY21-FY24: 0.8%);
- the four-year average of the operating profit/RWA ratio falls below 1.5% for a sustained period (FY21-FY24: 2.2%);
- ANZ's CET1 ratio falls to around 10.5%, or the equivalent under APRA's final Basel III framework, without a credible plan to raise it back above 11.0% (end-2024: 11.5%).

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

ANZ's Long-Term IDR and VR may be upgraded if one or more of the following occurs:

- the four-year average of the operating profit/RWA ratio is likely to improve to above 3% on a sustained basis;
- ANZ commits to maintaining capitalisation at levels consistent with that of higher-rated peers, possibly reflected in a CET1 ratio that is above 12.5%, or the equivalent under APRA's final Basel III framework.

## Other Debt and Issuer Ratings

| Rating Level | Rating | Outlook |
|---|---|---|
| Junior subordinated: long term | BBB | n.a. |
| Senior unsecured: long term | AA- | n.a. |
| Senior unsecured: short term | F1+ | n.a. |
| Subordinated: long term | A- | n.a. |

Source: Fitch Ratings

### Short-Term IDR

The Short-Term IDR of 'F1+' maps to the Long-Term IDR of 'AA-'.

### Senior Unsecured Instruments

ANZ's senior unsecured debt ratings are aligned with the IDRs, in line with Fitch's *Bank Rating Criteria* as Australia does not have statutory senior debt bail-in and therefore there is only one class of senior debt.

### Tier 2 Instruments

ANZ's subordinated Tier 2 debt is rated two notches below its anchor rating – the VR – for loss severity, with non-performance risk adequately captured by the VR. The point of non-viability for these instruments is at the discretion of the regulator. None of the reasons for alternative notching from the anchor rating, as described in the criteria, are present.

### Additional Tier 1 Instruments

ANZ's Additional Tier 1 hybrid capital instruments are rated four notches below the anchor rating – the VR – consistent with the base case in the *Bank Rating Criteria*. The four notches comprise two notches for loss severity and two notches for non-performance risk to reflect discretionary coupon-skip risks. Conversion of these instruments occurs at the point of non-viability, which is at the regulator's discretion, or if the CET1 ratio falls below 5.125%. None of the reasons for alternative notching is present.

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

#### *Short-Term IDR*

A downgrade of the Short-Term IDR would require the Long-Term IDR to be downgraded and the funding and liquidity score to remain below 'aa-'.

#### *Senior Unsecured Instruments*

The senior unsecured instrument ratings will be downgraded if ANZ's IDRs are downgraded.

#### *Tier 2 and Additional Tier 1 Instruments*

The Tier 2 and Additional Tier 1 instrument ratings will be downgraded if ANZ's VR is downgraded. The instrument ratings may also be downgraded if any of the reasons for higher notching outlined in Fitch's *Bank Rating Criteria* apply, although we view this as unlikely to occur.

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

#### *Short-Term IDR*

The Short-Term IDR cannot be upgraded as it is at the highest level on Fitch's rating scale.

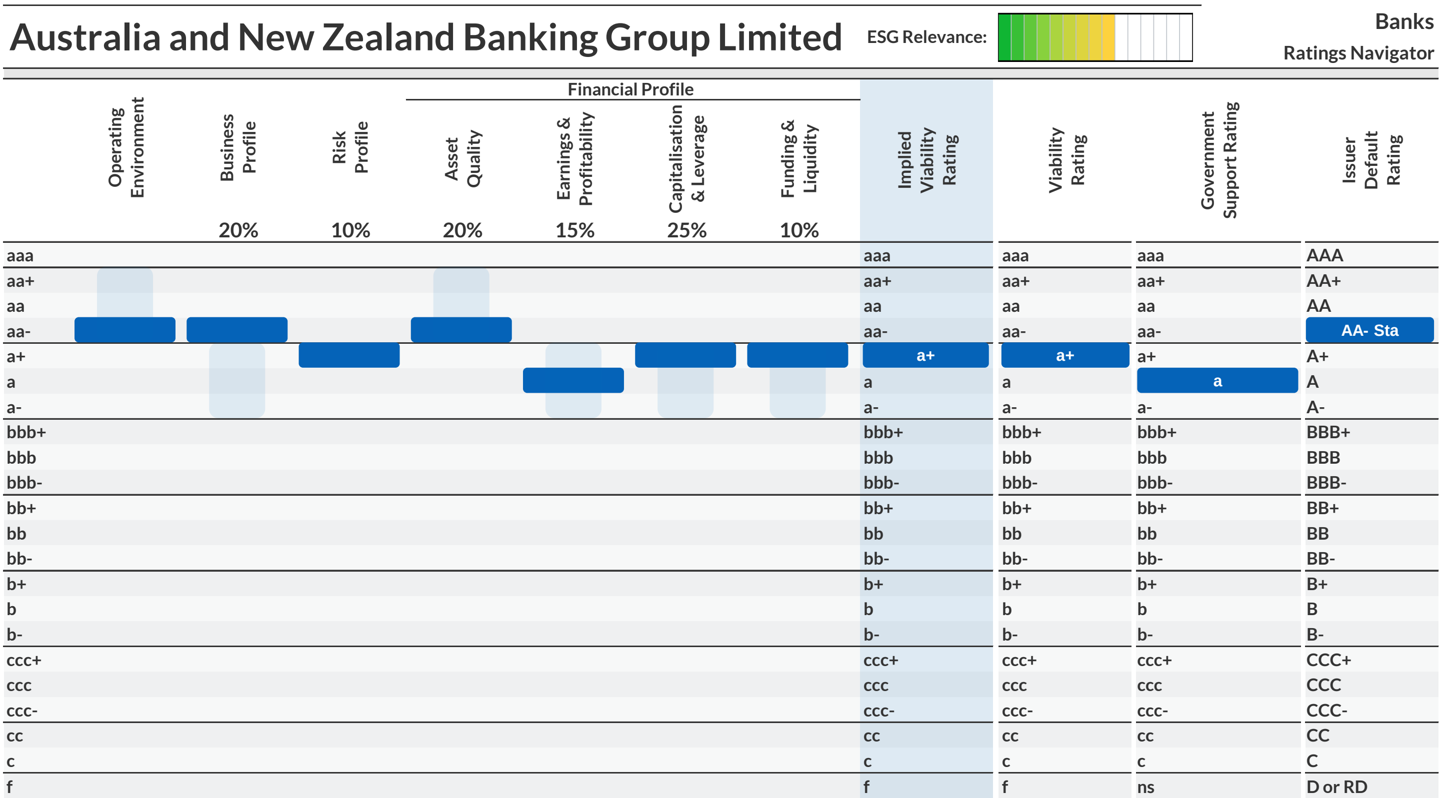
#### *Senior Unsecured Instruments*

The long-term senior unsecured instrument ratings will be upgraded if ANZ's Long-Term IDR is upgraded. The short-term senior unsecured instrument ratings cannot be upgraded, as they are at the highest level on Fitch's rating scale.

#### *Tier 2 and Additional Tier 1 Instruments*

The Tier 2 and Additional Tier 1 instrument ratings will be upgraded if ANZ's VR is upgraded. The instrument ratings may also be upgraded if any of the reasons for lower notching outlined in Fitch's *Bank Rating Criteria* apply, although we view this as unlikely to occur.

## Ratings Navigator




The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

## VR - Adjustments to Key Rating Drivers

The business profile score of 'aa-' has been assigned above the 'a' category implied score because of the following adjustment reason: market position (positive).

## Company Summary and Key Qualitative Factors

### Operating Environment

Fitch expects the economic environment in Australia and New Zealand will remain challenging for banks throughout 2025, although we expect conditions to improve gradually as monetary policy continues to ease in both countries. Australia accounted for 73% of ANZ's loans at end-2024, with New Zealand contributing an additional 17%.

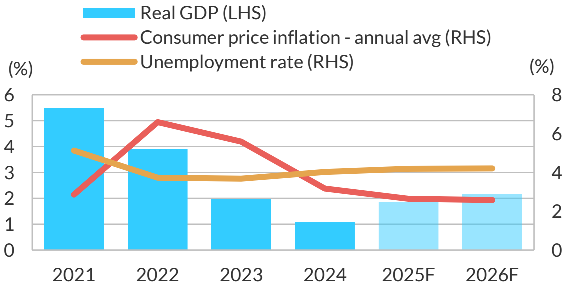
Interest rates remain high compared with Covid-19 pandemic-era levels and the benefits of recent rate reductions have yet to be fully realised. We expect unemployment to rise further in 2025, peaking below 4.5% in Australia and 5.5% in New Zealand. These unemployment rates are unlikely to result in significant asset-quality deterioration, although some borrowers may experience pressure until rates decline further.

We expect rate reductions to support borrowers in both markets and, ultimately, bank asset quality, particularly for Australian mortgage holders, most of whom have variable-rate loans. The rise in Australian house prices throughout 2024 provides an additional buffer against potential losses.

Higher interest rates have reduced borrowing capacity, leading to an improvement in household debt-to-disposable income ratios in both Australia and New Zealand. However, this ratio remains high compared with most other markets globally. We incorporate this factor into our OE assessment by placing the score at the lower end of the 'aa' category. The household debt-to-disposable income ratio in Australia was 182% at end-September 2024, while it was 168% in New Zealand.

### Australia Economy

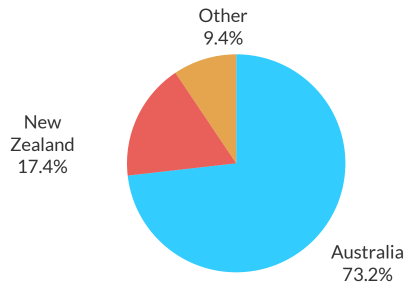
Year end




Source: Fitch Ratings

### Geographic Diversification

% of gross loans at FYE24




Source: Fitch Ratings, ANZ

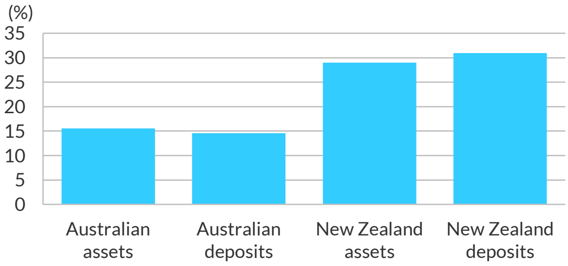
### Business Profile

ANZ's business profile benefits from its strong market position, which provides it with significant economies of scale and pricing power relative to smaller peers. ANZ is the smallest of the major banks in Australia with around 15% lending and deposit market share but is the largest of the New Zealand major banks, with around 28% of system assets.

ANZ focuses on traditional banking operations in its core markets of Australia and New Zealand following the exit from several offshore and non-banking businesses in recent years. This has simplified the bank's operation but has also reduced earnings and geographic diversity. However, the prudent nature of ANZ's lending activities and strong interest-rate risk management means we expect earnings to remain relatively stable through economic cycles.

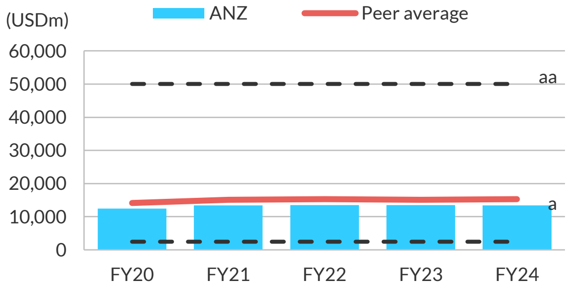
The bank continues to focus on technology investment and business simplification, aiming to improve longer-term efficiency and customer experience. Management strategy and execution have remained relatively consistent, which we believe should continue to support earnings through the cycle. Fitch does not expect the change in its CEO to result in large-scale changes to ANZ's strategy.

### Market Share
End-2024




Source: Fitch Ratings, Australian Prudential Regulation Authority, Reserve Bank of New Zealand

### Total Operating Income




[a] Annualised
Source: Fitch Ratings, Fitch Solutions, banks

## Risk Profile

Credit risk remains ANZ's largest risk, accounting for 80% of RWAs at end-2024. The credit risk arises largely from the loan book (65% of total assets at FYE24), with mortgages being the largest segment (60% of gross loans), and this is unlikely to change.

Risks in the residential mortgage portfolio appear to be well managed, with exposure to some riskier loan types, such as investor and interest-only mortgages, falling significantly since FY17. Buffers in the Australian mortgage portfolio remain high with a portfolio dynamic loan/value ratio of 48% at FYE24 (excluding Norfina), while offset accounts were equivalent to over 15% of Australian mortgage balances. The enhancements made in underwriting, combined with borrower saving and prepayment buffers, should mitigate pressure on asset quality within the mortgage portfolio that could be prompted by the sharp rise in interest rates.

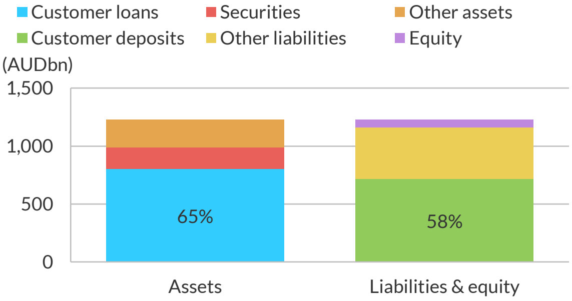
ANZ has a larger exposure to corporate and institutional lending than some Australian major bank peers, which increases its risk profile but adds diversification. We believe its exposures are well-managed and the underwriting of the exposures is consistent with that of peers. Commercial property and agriculture are two of the largest exposure segments outside of retail banking, government and financial institution. These two sectors combined accounted for about 9.8% of exposure at default at end-2024. ANZ has a larger institutional exposure to Asia than peers, but the portfolio is skewed towards short-term and investment-grade lending.

Management of interest-rate risk appears sound. Hedging is used extensively to reduce the risk, and the regulatory framework requires capital to be held for interest-rate risk in the banking book in Pillar 1 calculations.

We expect loan growth to be broadly aligned with the system rate over the long term and higher in 2025 following strong growth in the first quarter. ANZ has at times expanded faster than system levels, but this is unlikely to be sustained for a long period due to potential competitive pressures.

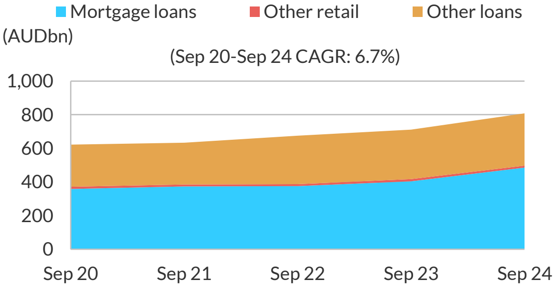
We do not expect the additional programme and works related to improving the bank's non-financial risk management and risk culture or the additional operational risk capital overlay, announced in March 2025, to pressure the ratings. Our base case may change should further reviews result in findings of widespread shortcomings in other parts of the business, particularly the retail bank.

### Balance Sheet
End-2024




Source: Fitch Ratings, Fitch Solutions, ANZ

### Loan Book Breakdown




CAGR: compound annual growth rate
Source: Fitch Ratings, Fitch Solutions, ANZ

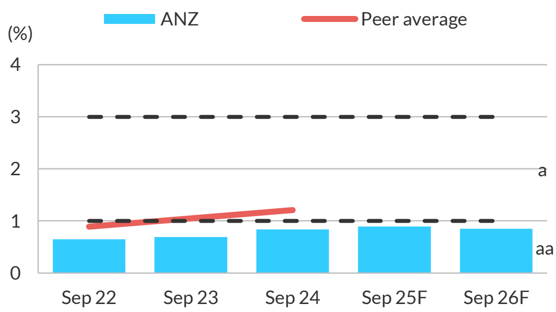
# Financial Profile

## Asset Quality

We expect the lagged effect of higher interest rates on the economy to result in a modest increase in unemployment in 2025, which is likely to result in a further small increase in stage 3 loans. We anticipate the stage 3 loan/gross loan ratio rising to just below 1% in FY25 from 0.8% at FY24. Thereafter, the benefit to borrowers from rate cuts should cause a gradual improvement in the stage 3 loan ratio. The four-year average should remain under 1% through the next two years and remain supportive of the 'aa-' asset-quality score. Losses, particularly in the mortgage portfolio, should be limited even if asset quality weakens more than we expect, given the quality of underwriting and high levels of collateral within the portfolio.

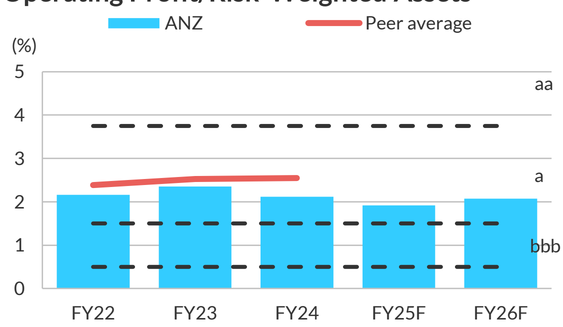
Loan-loss allowance coverage of impaired loans is likely to decline in FY25 as impaired-loan balances rise and collective provision overlays are utilised. We believe coverage of 54% at FY24 will be adequate, considering the high collateral cover of around 80% for ANZ's loans and other receivables. We expect loan-loss allowance coverage to decline modestly to around 50% by FYE25 before increasing to 60% over the next two years.

### Impaired Loans/Gross Loans




Source: Fitch Ratings, Fitch Solutions, banks

### Operating Profit/Risk-Weighted Assets




Source: Fitch Ratings, Fitch Solutions, banks

## Earnings and Profitability

We expect ANZ's earnings and profitability to be broadly stable over 2025, supported by above-system loan growth and a relatively consistent net interest margin (NIM). Competition in the mortgage market and for deposits poses some risk to our forecast as it could put greater pressure on the NIM than we expect.

Cost management is likely to remain a focus for ANZ even in a high inflation environment. The bank has kept core operating expenses steady and continues to invest heavily in technology and efficiency programmes. We expect the cost-to-income ratio to improve in the long term but remain at around the 50% range over the next few years.

We forecast that the operating profit/RWA ratio will remain at around 2.1% over the next two years, towards the lower end of the 1.5%-3.75% band for an implied 'a' category earnings and profitability score in 'aa' category OEs. However, we consider the Australian regulator's conservative approach to risk-weighting when determining the score. We use ANZ's estimate of an "internationally comparable" CET1 ratio to derive an "internationally comparable" operating profit/RWA ratio. The four-year average would rise to around 2.6% over our forecast period on this basis.

We do not place full weight on this ratio as it is not endorsed by a regulator and does not fully capture conservatism in other markets. However, we believe it provides a better comparison with international peers. We also consider ratios that are not risk-weighted, such as the operating profit/average total assets ratio, and earnings stability when deriving the score – on these metrics, ANZ compares well against many highly rated international peers.

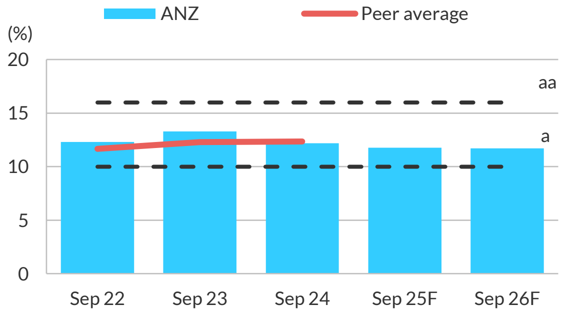
## Capitalisation and Leverage

ANZ's regulatory risk-weighted capital ratios appear modest in an international context and are affected by APRA's conservative approach to capital calculation and risk-weighting. This remains so even under the full final Basel III framework implemented in Australia since the start of 2023 and makes direct comparisons with global peers difficult.

Metrics that are not risk-weighted, such as the Basel leverage ratio and tangible common equity/tangible assets, compare more favourably with those of global peers. We also consider "internationally comparable" ratios reported by the Australian major banks, including ANZ, when assessing capitalisation and leverage. These ratios highlight the conservatism in the Australian framework and support a score of 'a+', above the low-to-mid 'a' category score implied by the regulatory CET1 ratio. However, as the "internationally comparable" ratio is not a regulatory ratio and does not take into account conservatism in the capital frameworks of other markets, we do not formally assign scores with it.

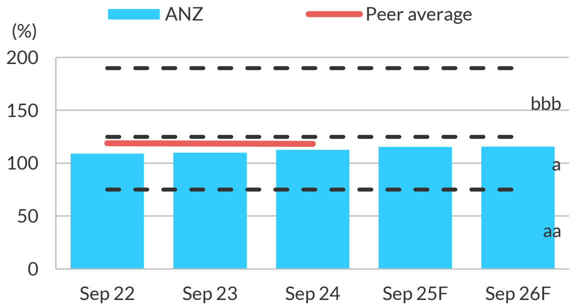
ANZ has met its final 2026 LAC requirement of a total capital ratio of 18.25%. LAC can only be fulfilled using existing capital instruments – no senior instruments are included in the buffer. In practice, we expect banks to primarily meet the requirement through Tier 2 issuance. We also anticipate ANZ being able to replace additional Tier 1 instruments with Tier 2 instruments when the former are removed from the capital framework from 2027. The bank's issuance of Tier 2 debt will likely remain at similar levels to the last five years while it built its LAC buffer.

### CET1 Ratio




Source: Fitch Ratings, Fitch Solutions, banks

### Gross Loans/Customer Deposits




Source: Fitch Ratings, Fitch Solutions, banks

## Funding and Liquidity

We expect loan growth to outpace deposit growth FY25, resulting a modestly weaker loan/deposit ratio. We expect loan and deposit growth to be broadly matched thereafter. ANZ's core metric is likely to remain the strongest among the peer group and continue to be supported by its strong deposit franchise. This ratio has fallen substantially over more than a decade as deposit funding has increased, which supports our reassessment of the funding and liquidity score to 'a+' from 'a'.

ANZ, along with other Australian banks, is likely to remain reliant on wholesale funding from offshore markets, but the risks associated with this are well managed. The bank is proactive in its issuance and diversifies its wholesale funding by product, currency and market. Foreign-currency funding is hedged back into the operational currency to remove currency risk. Growth in local-currency issuance has also grown in recent years and we believe ANZ, along with its peers, is likely to continue utilising the domestic market.

Its liquidity management remains strong, and we expect ANZ to maintain its regulatory liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) well above the 100% minimum. The bank reported an average LCR of 131% in September-December 2024, while its NSFR was 114% at FYE24. We expect these ratios to remain broadly stable after being elevated during 2024 due to the repayment of the Reserve Bank of Australia term funding facility.

## Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's *Bank Rating Criteria*. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market

To the extent Fitch is aware of material non-public information with respect to future events, such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

# Financials

## Summary Financials

| | 30 Sep 24 | | 30 Sep 23 | 30 Sep 22 | 30 Sep 21 |
|---|---|---|---|---|---|
| | Year end | Year end | Year end | Year end | Year end |
| | (USDm) | (AUDm) | (AUDm) | (AUDm) | (AUDm) |
| | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified | Audited - unqualified |
| **Summary income statement** | | | | | |
| Net interest and dividend income | 11,117 | 16,037.0 | 16,575.0 | 14,874.0 | 14,161.0 |
| Net fees and commissions | 1,361 | 1,964.0 | 1,946.0 | 1,972.0 | 2,143.0 |
| Other operating income | 1,761 | 2,541.0 | 1,988.0 | 2,335.0 | 1,367.0 |
| Total operating income | 14,240 | 20,542.0 | 20,509.0 | 19,181.0 | 17,671.0 |
| Operating costs | 7,396 | 10,669.0 | 10,087.0 | 9,579.0 | 9,051.0 |
| Pre-impairment operating profit | 6,844 | 9,873.0 | 10,422.0 | 9,602.0 | 8,620.0 |
| Loan and other impairment charges | 281 | 406.0 | 245.0 | -232.0 | -567.0 |
| Operating profit | 6,563 | 9,467.0 | 10,177.0 | 9,834.0 | 9,187.0 |
| Other non-operating items (net) | -15 | -21.0 | -43.0 | 226.0 | -268.0 |
| Tax | 1,952 | 2,816.0 | 2,941.0 | 2,940.0 | 2,756.0 |
| Net income | 4,596 | 6,630.0 | 7,193.0 | 7,120.0 | 6,163.0 |
| Other comprehensive income | 49 | 71.0 | 816.0 | -3,735.0 | -304.0 |
| Fitch comprehensive income | 4,645 | 6,701.0 | 8,009.0 | 3,385.0 | 5,859.0 |
| | | | | | |
| **Summary balance sheet** | | | | | |
| Assets | | | | | |
| Gross loans | 559,903 | 807,707.0 | 711,240.0 | 675,989.0 | 633,764.0 |
| - of which impaired | 4,719 | 6,808.0 | 4,895.0 | 4,371.0 | 5,303.0 |
| Loan loss allowances | 2,548 | 3,675.0 | 3,546.0 | 3,582.0 | 4,045.0 |
| Net loans | 557,355 | 804,032.0 | 707,694.0 | 672,407.0 | 629,719.0 |
| Interbank | 3,802 | 5,484.0 | 9,349.0 | 4,762.0 | 7,530.0 |
| Derivatives | 37,689 | 54,370.0 | 60,406.0 | 90,174.0 | 38,736.0 |
| Other securities and earning assets | 129,928 | 187,432.0 | 136,294.0 | 123,571.0 | 129,786.0 |
| Total earning assets | 728,774 | 1,051,318.0 | 913,743.0 | 890,914.0 | 805,771.0 |
| Cash and due from banks | 105,110 | 151,630.0 | 177,358.0 | 168,764.0 | 151,931.0 |
| Other assets | 18,465 | 26,637.0 | 14,940.0 | 26,051.0 | 21,155.0 |
| Total assets | 852,348 | 1,229,585.0 | 1,106,041.0 | 1,085,729.0 | 978,857.0 |
| | | | | | |
| **Liabilities** | | | | | |
| Customer deposits | 496,771 | 716,634.0 | 647,400.0 | 620,430.0 | 593,582.0 |
| Interbank and other short-term funding | 130,690 | 188,532.0 | 167,803.0 | 176,851.0 | 149,474.0 |
| Other long-term funding | 102,116 | 147,311.0 | 107,782.0 | 86,029.0 | 76,341.0 |
| Trading liabilities and derivatives | 42,477 | 61,277.0 | 62,749.0 | 88,388.0 | 36,035.0 |
| Total funding and derivatives | 772,054 | 1,113,754.0 | 985,734.0 | 971,698.0 | 855,432.0 |
| Other liabilities | 26,337 | 37,994.0 | 42,961.0 | 39,925.0 | 35,036.0 |
| Preference shares and hybrid capital | 6,818 | 9,835.0 | 8,744.0 | 8,189.0 | 24,713.0 |
| Total equity | 47,139 | 68,002.0 | 68,602.0 | 65,917.0 | 63,676.0 |
| Total liabilities and equity | 852,348 | 1,229,585.0 | 1,106,041.0 | 1,085,729.0 | 978,857.0 |
| Exchange rate | | USD1 = AUD1.442585 | USD1 = AUD1.548467 | USD1 = AUD1.53798 | USD1 = AUD1.387732 |

Source: Fitch Ratings, Fitch Solutions, Australia and New Zealand Banking Group Limited

## Key Ratios

| | 30 Sep 24 | 30 Sep 23 | 30 Sep 22 | 30 Sep 21 |
|---|---|---|---|---|
| **Ratios (annualised as appropriate)** | | | | |
| | | | | |
| **Profitability** | | | | |
| Operating profit/risk-weighted assets | 2.1 | 2.4 | 2.2 | 2.2 |
| Net interest income/average earning assets | 1.6 | 1.7 | 1.6 | 1.6 |
| Non-interest expense/gross revenue | 52.3 | 49.7 | 50.4 | 50.7 |
| Net income/average equity | 9.7 | 10.7 | 11.2 | 9.9 |
| | | | | |
| **Asset quality** | | | | |
| Impaired loans ratio | 0.8 | 0.7 | 0.7 | 0.8 |
| Growth in gross loans | 13.6 | 5.2 | 6.7 | 1.9 |
| Loan loss allowances/impaired loans | 54.0 | 72.4 | 82.0 | 76.3 |
| Loan impairment charges/average gross loans | 0.1 | 0.1 | 0.0 | -0.1 |
| | | | | |
| **Capitalisation** | | | | |
| Common equity Tier 1 ratio | 12.2 | 13.3 | 12.3 | 12.3 |
| Fully loaded common equity Tier 1 ratio | n.a. | n.a. | n.a. | n.a. |
| Fitch Core Capital ratio | n.a. | n.a. | n.a. | n.a. |
| Tangible common equity/tangible assets | 4.9 | 5.6 | 5.5 | 5.9 |
| Basel leverage ratio | 4.7 | 5.4 | 5.4 | 5.5 |
| Net impaired loans/common equity Tier 1 | 5.8 | 2.3 | 1.4 | 2.5 |
| Net impaired loans/Fitch Core Capital | n.a. | n.a. | n.a. | n.a. |
| | | | | |
| **Funding and liquidity** | | | | |
| Gross loans/customer deposits | 112.7 | 109.9 | 109.0 | 106.8 |
| Gross loans/customer deposits + covered bonds | 109.8 | 106.9 | 106.7 | 104.1 |
| Liquidity coverage ratio | 132.4 | 132.9 | 128.7 | 135.8 |
| Customer deposits/total non-equity funding | 67.1 | 69.1 | 69.3 | 70.3 |
| Net stable funding ratio | 116.1 | 116.4 | 119.1 | 124.2 |

Source: Fitch Ratings, Fitch Solutions, Australia and New Zealand Banking Group Limited

## Support Assessment

| Commercial Banks: Government Support | |
|---|---|
| Typical D-SIB GSR for sovereign's rating level (assuming high propensity) | a+ to a- |
| Actual jurisdiction D-SIB GSR | a |
| Government Support Rating | a |
| | |
| **Government ability to support D-SIBs** | |
| Sovereign Rating | AAA/ Stable |
| Size of banking system | Negative |
| Structure of banking system | Negative |
| Sovereign financial flexibility (for rating level) | Positive |
| | |
| **Government propensity to support D-SIBs** | |
| Resolution legislation | Neutral |
| Support stance | Neutral |
| | |
| **Government propensity to support bank** | |
| Systemic importance | Neutral |
| Liability structure | Neutral |
| Ownership | Neutral |

The colours indicate the weighting of each KRD in the assessment.
Higher influence Moderate influence Lower influence

ANZ's GSR reflects its systemic importance as an Australian domestic systemically important bank (D-SIB), as shown in its market shares. In addition, ANZ's business model is similar to that of the other large Australian banks, which increases contagion risk in a stressed environment. We believe there is a very high probability of support from the Australian authorities, if needed, as a result.

The GSR also reflects a strong ability to support, as reflected in Australia's sovereign rating, and the historical propensity for Australian authorities to support senior creditors of banks. This was evident during the global financial crisis of 2008 through the implementation of a government guarantee for senior bonds, and is reinforced by the regulatory approach to LAC, which does not allow for a senior bail-in instrument. A downgrade of the sovereign rating would not automatically result in a downgrade of the GSR, particularly if we believed the strong propensity to support offsets any reduced ability to do so.

## Subsidiaries and Affiliates

Fitch has assigned a Long-Term IDR of 'AA-' with a Stable Outlook and a Short-Term IDR of 'F1+' to Australia and New Zealand Banking Group Limited New York Branch (ANZNY). ANZNY's IDRs are equalised with ANZ's as it is the same legal entity as ANZ and there are no transfer and convertibility risks as both Australia and the US have Country Ceilings of 'AAA'.

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

A downgrade of ANZ's IDRs would lead to negative rating action on ANZNY's IDRs.

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

An upgrade of ANZ's Long-Term IDR would lead to positive rating action on ANZNY's Long-Term IDR. ANZNY's Short-Term IDR cannot be upgraded as it is already at the highest level on the rating scale.

# Environmental, Social and Governance Considerations

FitchRatings

## Australia and New Zealand Banking Group Limited

Banks
Ratings Navigator

### Credit-Relevant ESG Derivation

| | | | | ESG Relevance to Credit Rating |
|---|---|---|---|---|
| Australia and New Zealand Banking Group Limited has 5 ESG potential rating drivers<br>Australia and New Zealand Banking Group Limited has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.<br>Governance is minimally relevant to the rating and is not currently a driver. | key driver | 0 | issues | 5 |
| | driver | 0 | issues | 4 |
| | potential driver | 5 | issues | 3 |
| | not a rating driver | 4 | issues | 2 |
| | | 5 | issues | 1 |

### Environmental (E) Relevance Scores

| General Issues | E Score | Sector-Specific Issues | Reference | E Relevance |
|---|---|---|---|---|
| GHG Emissions & Air Quality | 1 | n.a. | n.a. | 5 |
| Energy Management | 1 | n.a. | n.a. | 4 |
| Water & Wastewater Management | 1 | n.a. | n.a. | 3 |
| Waste & Hazardous Materials Management; Ecological Impacts | 1 | n.a. | n.a. | 2 |
| Exposure to Environmental Impacts | 2 | Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations | Business Profile (incl. Management & governance); Risk Profile; Asset Quality | 1 |

### Social (S) Relevance Scores

| General Issues | S Score | Sector-Specific Issues | Reference | S Relevance |
|---|---|---|---|---|
| Human Rights, Community Relations, Access & Affordability | 2 | Services for underbanked and underserved communities: SME and community development programs; financial literacy programs | Business Profile (incl. Management & governance); Risk Profile | 5 |
| Customer Welfare - Fair Messaging, Privacy & Data Security | 3 | Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) | Operating Environment; Business Profile (incl. Management & governance); Risk Profile | 4 |
| Labor Relations & Practices | 2 | Impact of labor negotiations, including board/employee compensation and composition | Business Profile (incl. Management & governance) | 3 |
| Employee Wellbeing | 1 | n.a. | n.a. | 2 |
| Exposure to Social Impacts | 2 | Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices | Business Profile (incl. Management & governance); Financial Profile | 1 |

### Governance (G) Relevance Scores

| General Issues | G Score | Sector-Specific Issues | Reference | G Relevance |
|---|---|---|---|---|
| Management Strategy | 3 | Operational implementation of strategy | Business Profile (incl. Management & governance) | 5 |
| Governance Structure | 3 | Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions | Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage | 4 |
| Group Structure | 3 | Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership | Business Profile (incl. Management & governance) | 3 |
| Financial Transparency | 3 | Quality and frequency of financial reporting and auditing processes | Business Profile (incl. Management & governance) | 2 |
| | | | | 1 |

**How to Read This Page**
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

**The Credit-Relevant ESG Derivation** table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

**Classification** of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

**CREDIT-RELEVANT ESG SCALE**

**How relevant are E, S and G issues to the overall credit rating?**

| | |
|---|---|
| 5 | Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator. |
| 4 | Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator. |
| 3 | Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator. |
| 2 | Irrelevant to the entity rating but relevant to the sector. |
| 1 | Irrelevant to the entity rating and irrelevant to the sector. |

We have revised ANZ's ESG Relevance Score for Exposure to Social Impacts to '2', the bank sector default score, from '3' because we no longer expect the ongoing scrutiny of the conduct and practices of Australia's largest banks by consumers and authorities to have an impact on ANZ's market share.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.