FitchRatings

Banks
Universal Commercial Banks
Australia

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 above its Viability Rating (VR) after the upgrade. This reflects the junior debt buffers it built to address loss-absorbing capacity (LAC) requirements. Australia's framework requires LAC buffers to be met through existing capital instruments. The Australian Prudential Regulation Authority (APRA) set the requirements to reduce the risk of taxpayer funds being needed to recapitalise a bank on resolution and protect third-party senior creditors.

ANZ is on track to meet the 2026 final LAC requirements, which require a minimum of 6.5% of Tier 2 (T2) and 1.5% Additional Tier 1 (AT1) capital of risk-weighted assets (RWAs). At end-March 2024, ANZ's T2 capital made up 6.5% and AT1 made up 1.9% of RWAs. The VR is in line with the implied VR. The Stable Outlook reflects Fitch Ratings' view that there is sufficient headroom in ANZ's financial metrics to maintain the current VR, even in a scenario that is moderately weaker than our base case.

Economic Growth to Remain Slow: We expect high inflation and interest rates to result in slower economic growth and higher unemployment in Australia and New Zealand, ANZ's two main markets, in 2024. We factor in high household leverage into our operating environment assessment, resulting in a score at the lower end of the 'aa' category. We do not use a blended approach for ANZ's operating environment score despite its higher international exposure than peers, as a large portion of the exposures are to the sovereign and financial institutions.

Strong Market Positions: ANZ is Australia's fourth-largest bank with around 13% of system assets at end-2023. 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.

Improved Non-Financial Risk Management: The positive outlook on the risk-profile factor score of 'a+' reflects the steady improvement in non-financial risk management in the past few years. We may raise the score if historical non-financial risk issues are substantially resolved, which may be reflected in the removal of the Australian regulator's AUD500 million operational risk charge issued in 2019 to reflect weaknesses in non-financial risk management. We regard ANZ's underwriting and risk controls as sound and consistent with that of domestic peers.

Asset Quality Weakening: High interest rates and an increase in unemployment as economic growth slows are likely to result in weaker asset quality in 2024. We expect the stage 3 loan/gross loan ratio to remain below 1.5% in that year. The assigned asset-quality score of 'aa-' is above the implied 'a' category score to reflect the high level of collateral held over the loan book.

Earnings Challenges: We expect ANZ's earnings to face continued pressure in 2024. The net interest margin is likely to contract as the cash rate stabilises, funding costs rise and competition for loans remains intense. Impairment charges are likely to normalise from very low levels currently, while inflation and high investment expenditure will continue to weigh on expenses.

Sound Capital Buffers: We expect ANZ's common equity Tier 1 (CET1) ratio, which was 13.5% in the financial half-year ended March 2024 (1HFY24), to remain comfortably above regulatory minimums. The ratio is likely to fall by about 120bp to around 12% after the completion of the acquisition of Suncorp-Metway Limited (SML, A/Rating Watch Positive) and announced share buybacks. We expect further moderation of the CET1 ratio, aligning with management's likely operating range of 11.0%-11.5% over the longer term.

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

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Fitch Upgrades Australia and New Zealand Banking Group to 'AA-'; Stable Outlook (May 2024)

Upgrades of Australian's Five Largest Banks Followed Build-Up of Resolution Buffers (May 2024)

Major Australian Banks - Peer Review 2024 (March 2024)

Global Economic Outlook (March 2024)

DM100 Banks Tracker – End-1H23 (November 2023)

Asia-Pacific Developed Market Banks Outlook 2024 (November 2023)

Analysts

Jack Do
+61 2 8256 0355
jack.do@fitchratings.com

Tim Roche
+61 2 8256 0310
tim.roche@fitchratings.com

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

ANZ's VR could be downgraded if the operating environment weakens sharply, resulting in a reassessment of the 'aa-' operating environment score into the 'a' category and probably a reassessment of most other factors. We believe a downgrade is unlikely but could occur if inflation remains high, requiring the official cash rate to remain higher for much longer than our forecast, resulting in a much sharper decline in GDP growth and a rapid increase in unemployment.

The ratings may also be downgraded even if the operating environment 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% (FY20-FY23: 0.8%);
- the four-year average of operating profit/RWA ratio falls below 1.5% for a sustained period (FY20-FY23: 2.1%);
- the 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% (1HFY24: 13.5%).

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

ANZ's Long-Term IDR, VR and senior debt ratings may be upgraded if a combination 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 higher-rated peers, possibly reflected in the CET1 ratio above 12.5%, or the equivalent under APRA's final Basel III framework.

Other Debt and Issuer Ratings

Rating Level	Rating
Junior subordinated: long term	BBB
Senior unsecured: long term	AA-
Senior unsecured: short term	F1+
Subordinated: long term	A-

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, consistent with the baseline approach outlined in Fitch's *Bank Rating Criteria*.

T2 Instruments: ANZ's subordinated T2 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, is present.

AT1 Instruments: ANZ's AT1 hybrid capital instruments are rated four notches below the anchor rating – the VR – consistent with the base case in our *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 remaining below 'aa-'.

Senior Unsecured Instruments

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

T2 and AT1 Instruments

The T2 and AT1 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.

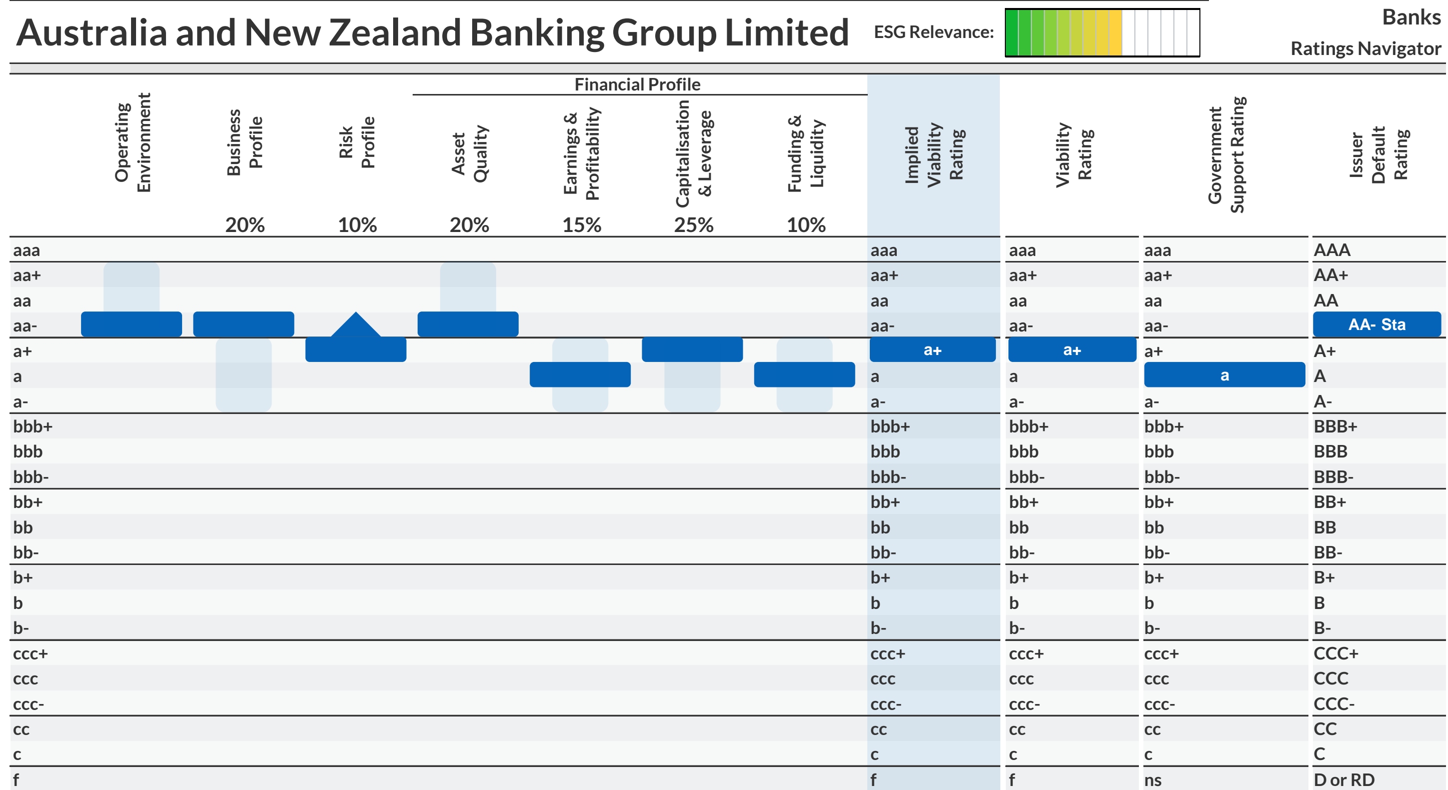
Senior Unsecured Instruments

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.

T2 and AT1 Instruments

The T2 and AT1 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 for the following adjustment reason: market position (positive).

Company Summary and Key Qualitative Factors

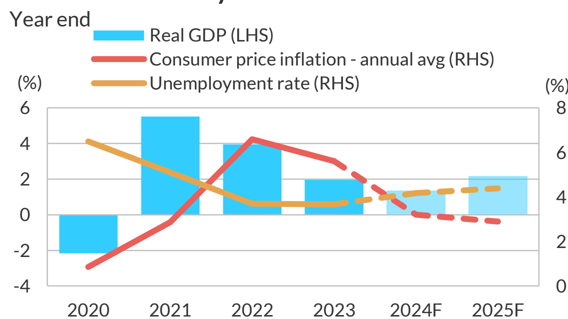
Operating Environment

We expect the economic environment in Australia and New Zealand to remain challenging for banks during 2024 – Australia accounted for 60% of ANZ's exposure at default at end-2023, with New Zealand making up an additional 17%. Rapid interest-rate rises by central banks in both countries during 2022 and 2023 to address high inflation are likely to result in a slowdown in economic growth and rise in unemployment during 2024. We expect unemployment levels to rise to about 4.4% in Australia and 5% in New Zealand by 2025. These unemployment rates are unlikely to result in significant asset-quality deterioration across the systems, although pockets of borrowers are likely to be pressured by the higher interest rates.

We expect the Reserve Bank of Australia to start cutting interest rates in late 2024, although persistent services inflation is increasing the risk that these cuts may be delayed. Rate cuts should support borrowers and, ultimately, bank asset quality, as the majority of Australian mortgage holders have variable-rate loans. House price increases in Australia through 2023 and, more recently, in New Zealand provide an additional buffer against potential losses for the banks in both markets.

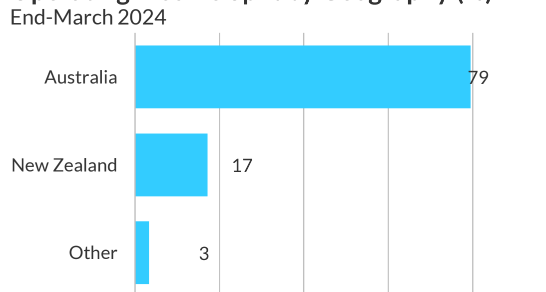
Higher interest rates have reduced borrowing capacity in both markets as well, which has resulted in an improvement in household debt/disposable income ratios. However, this ratio still remains high relative to most other markets globally. We factor this into our operating environment assessment by placing the score at the lower end of the 'aa' category. Australia's household debt/disposable income ratio was 185% at end-2023, while New Zealand's was 166%.

Australia Economy
Year end



Source: Fitch Ratings

Operating Income Split by Geography (%)
End-March 2024



Source: Fitch Ratings, Fitch Solutions, 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. The bank's operations are geared towards traditional banking activities and it has a low reliance on volatile businesses. Its core segments are residential mortgages and commercial loans.

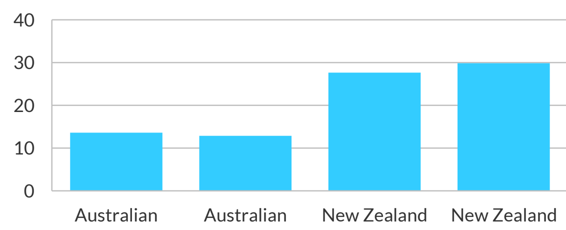
The completion of the SML acquisition would be positive for ANZ's market share (an increase of about 2%) and increase its Australian geographical diversity, but it is unlikely to result in a revision of the 'aa-' business profile score because the bank would remain smaller than a number of peers that also have 'aa-' business profile scores. Fitch expects only modest changes to ANZ's financial profile should the acquisition be completed.

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.

Market Share

End-March 2024

(%)

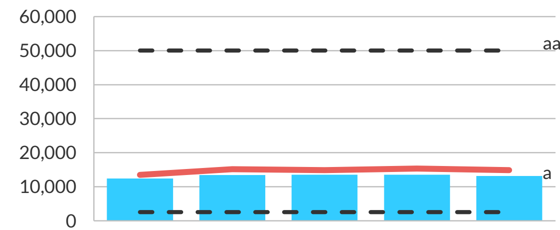


Source: Fitch Ratings, Australian Prudential Regulation Authority, Reserve Bank of New Zealand

Total Operating Income

ANZ   Peer average

(USDm)



[a] Annualised

Source: Fitch Ratings, Fitch Solutions, banks

Risk Profile

Credit risk remains ANZ's largest risk, accounting for 80% of RWAs at end-2023. The credit risk arises largely from the loan book (62% of total assets at FYE23), with mortgages being the largest segment (55% of gross loans), which is unlikely to change.

Risks in ANZ's 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 49% at FYE23, while offset accounts were equivalent to over 14% 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 these 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 exposures. Combined, these two sectors accounted for about 8.6% of exposure at default. ANZ has a larger institutional exposure to Asia than peers, but the portfolio is skewed towards short-term and investment-grade lending.

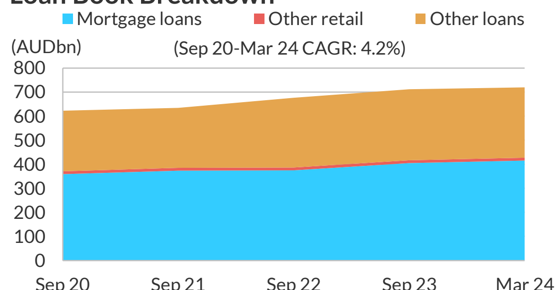
Management of interest-rate risk appears sound. Hedging is used extensively to reduce risk and the regulatory framework requires capital to be held for interest-rate risk in the banking book in Pillar 1 calculations.

We expect loan growth to be modest and broadly aligned with the system in 2024 due to high interest rates and low GDP growth. ANZ could at times expand faster than system levels, but this is unlikely to be sustained for a long period and is unlikely to put pressure on capitalisation.

Loan Book Breakdown

Mortgage loans   Other retail   Other loans

(AUDbn)   (Sep 20-Mar 24 CAGR: 4.2%)



CAGR: compound annual growth rate

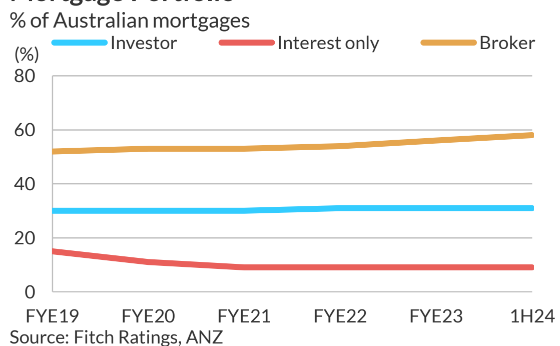
Source: Fitch Ratings, Fitch Solutions, ANZ

Mortgage Portfolio

% of Australian mortgages

Investor   Interest only   Broker

(%)



Source: Fitch Ratings, ANZ

Financial Profile

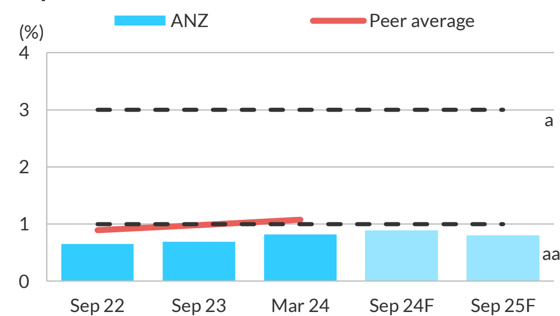
Asset Quality

We expect asset-quality metrics to weaken through to FY24 due to elevated interest rates, inflationary pressures and our expectations for a modest rise in unemployment. However, we forecast unemployment to remain low relative to historical standards, which means the deterioration in asset quality should be manageable. We expect ANZ's stage 3 loans/gross loans to increase to around 0.9% by FYE24, from the 0.8% at 1HFY24.

Factors such as a low average loan/value ratio (LVR) and use of lenders' mortgage insurance for higher LVR loans strengthened underwriting, and borrower savings and prepayments also provided some buffers against significant losses in the residential mortgage portfolio. We believe that significant losses, although not our base case, are still most likely to first emerge from ANZ’s business loan portfolio.

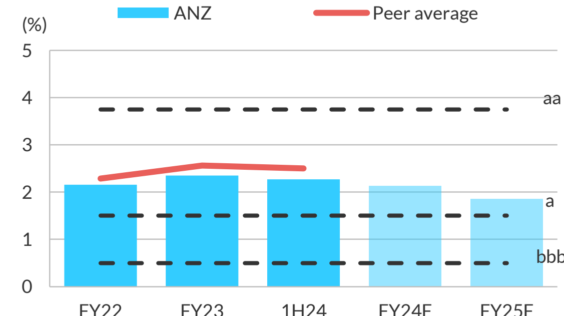
Loan-loss allowance coverage of impaired loans is likely to decline as impaired-loan balances rise. Coverage was 59% in 1HFY24, which we believe is adequate, considering the high collateral coverage (around 80%) over ANZ’s net loans and advances. We expect loan-loss allowance coverage to decline modestly as stage 3 loans increase, as the bank is likely to use collective provisions raised in anticipation of the weaker operating environment

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 the headwinds to ANZ’s profitability that emerged in 2H23 to persist through FY24, resulting in a lower operating profit/RWA ratio. These challenges include net interest margin pressure due to competition for both loans, amid slow system growth, and deposits as banks refinance cheap central bank funding provided during the Covid-19 pandemic. Loan impairment charges are also likely to rise as asset quality weakens.

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 revenue growth to lag cost growth in FY24 due to the challenges, resulting in a modest weakening of the cost/income ratio. The completion of the SML acquisition is also likely to be a further drag to operating efficiency and we can see the cost/income ratio increasing to the low 50s in percentage terms.

We forecast that ANZ’s operating profit/RWA ratio of 2.3% in 1HFY24 will fall to about 2.0% over the next two years. At these levels, the ratio is towards the lower end of the 1.5%-3.75% band for an implied ‘a’ category earnings and profitability score in ‘aa’ category operating environments. We incorporate the conservative risk-weighting approach of the Australian regulator, which results in the ratio being lower than it might be in other jurisdictions, when determining the ‘a’ factor score for ANZ.

Capital and Leverage

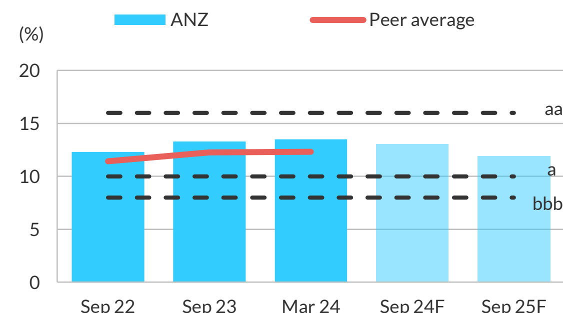
We expect ANZ’s CET1 ratio, which is the highest among the peer group, to become consistent with that of peers once the SML acquisition is completed. Final Basel III rules were implemented from the start of 2023, increasing the granularity in risk-weighting and removing some of the conservative settings employed by the Australian regulator under the old framework. This ultimately resulted in a reduction in ANZ’s RWAs and was a key driver of the 100bp increase in the CET1 ratio to 13.3% in FY23.

Excluding the capital held for the SML acquisition, ANZ's capital ratios are generally in line with other large Australian banks. However, they appear lower in an international context, due to APRA's conservative approach to capital and RWA calculation compared with global standards, even after an increase in granularity under the final Basel III rules. ANZ estimated its CET1 ratio was 19.7% at 1HFY24 on an internationally comparable basis, 620bp higher than APRA’s framework.

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 take this into consideration in our capitalisation and leverage assessment of 'a+'.

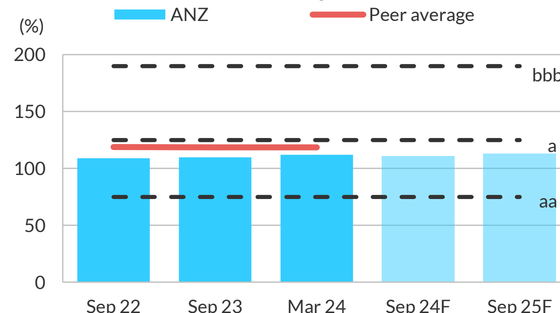
The LAC requirement appears to be manageable for ANZ. APRA requires Australia's domestic systemically important banks (D-SIBs), including ANZ, to meet these requirements using existing capital instruments, which is in practice through the issuance of T2 debt. The initial requirement for D-SIBs to have an additional LAC of 3.0pp of RWAs was implemented at the start of 2024 and will rise to 4.5pp by January 2026.

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 slightly outpace deposit growth for ANZ over FY24 and FY25, resulting a modestly weaker loan/deposit ratio over the next two years. Nonetheless, ANZ's core metric is likely to remain the strongest among the peer group and continue to be supported by its strong deposit franchise.

ANZ, along with other Australian banks, is likely to remain reliant on wholesale funding from offshore markets, which we regard as a weakness relative to similarly rated overseas peers. Wholesale issuance has returned to normal levels after being subdued due to central bank funding facilities provided during the pandemic. The bank appears well positioned to refinance the upcoming maturity of these borrowings.

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 130% in the December 2023 quarter, while its NSFR was 115% at end-2023. We expect these ratios to moderate somewhat once the term funding facility has been repaid.

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 macroeconomic 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 M&A 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.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'aa' category. Light-blue columns represent Fitch's forecasts.

The peer average includes National Australia Bank Limited (VR: a+), Commonwealth Bank of Australia (a+) and Westpac Banking Corporation (a+). Unless otherwise stated, the financial year (FY) end is 31 December for all banks in this report. Financial year-end for Australia and New Zealand Banking Group Limited, National Australia Bank Limited, Westpac Banking Corporation is 30 September. Financial year-end for Commonwealth Bank of Australia is 30 June. The latest average uses FY23 data for Commonwealth Bank of Australia.

Financials

Summary Financials

	31 Mar 24		30 Sep 23	30 Sep 22	30 Sep 21	30 Sep 20
	6 Months - interim (USDm)	6 Months - interim (AUDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)	Year end (AUDm)
	Reviewed - unqualified	Reviewed - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	5,160	7,900.0	16,575.0	14,874.0	14,161.0	14,049.0
Net fees and commissions	629	963.0	1,946.0	1,972.0	2,143.0	2,325.0
Other operating income	853	1,306.0	1,988.0	2,335.0	1,367.0	2,085.0
Total operating income	6,642	10,169.0	20,509.0	19,181.0	17,671.0	18,459.0
Operating costs	3,383	5,179.0	10,087.0	9,579.0	9,051.0	9,306.0
Pre-impairment operating profit	3,259	4,990.0	10,422.0	9,602.0	8,620.0	9,153.0
Loan and other impairment charges	46	70.0	245.0	-232.0	-567.0	2,738.0
Operating profit	3,214	4,920.0	10,177.0	9,834.0	9,187.0	6,415.0
Other non-operating items (net)	-14	-21.0	-43.0	226.0	-268.0	-997.0
Tax	937	1,435.0	2,941.0	2,940.0	2,756.0	1,840.0
Net income	2,263	3,464.0	7,193.0	7,120.0	6,163.0	3,578.0
Other comprehensive income	157	240.0	816.0	-3,735.0	-304.0	-111.0
Fitch comprehensive income	2,419	3,704.0	8,009.0	3,385.0	5,859.0	3,467.0
Summary balance sheet						
Assets						
Gross loans	469,853	719,310.0	711,240.0	675,989.0	633,764.0	622,074.0
- of which impaired	3,848	5,891.0	4,895.0	4,371.0	5,303.0	7,018.0
Loan loss allowances	2,279	3,489.0	3,546.0	3,582.0	4,045.0	4,981.0
Net loans	467,574	715,821.0	707,694.0	672,407.0	629,719.0	617,093.0
Interbank	2,488	3,809.0	9,349.0	4,762.0	7,530.0	7,541.0
Derivatives	31,015	47,481.0	60,406.0	90,174.0	38,736.0	135,331.0
Other securities and earning assets	105,469	161,465.0	136,294.0	123,571.0	129,786.0	146,468.0
Total earning assets	606,546	928,576.0	913,743.0	890,914.0	805,771.0	906,433.0
Cash and due from banks	90,398	138,392.0	177,358.0	168,764.0	151,931.0	108,724.0
Other assets	15,135	23,170.0	14,940.0	26,051.0	21,155.0	27,129.0
Total assets	712,078	1,090,138.0	1,106,041.0	1,085,729.0	978,857.0	1,042,286.0
Liabilities						
Customer deposits	418,920	641,335.0	647,400.0	620,430.0	593,582.0	552,363.0
Interbank and other short-term funding	108,336	165,854.0	167,803.0	176,851.0	149,474.0	139,274.0
Other long-term funding	60,121	92,040.0	107,782.0	86,029.0	76,341.0	99,029.0
Trading liabilities and derivatives	27,910	42,728.0	62,749.0	88,388.0	36,035.0	134,711.0
Total funding and derivatives	615,286	941,957.0	985,734.0	971,698.0	855,432.0	925,377.0
Other liabilities	28,029	42,910.0	42,961.0	39,925.0	35,036.0	34,973.0
Preference shares and hybrid capital	23,402	35,826.0	8,744.0	8,189.0	24,713.0	20,639.0
Total equity	45,361	69,445.0	68,602.0	65,917.0	63,676.0	61,297.0
Total liabilities and equity	712,078	1,090,138.0	1,106,041.0	1,085,729.0	978,857.0	1,042,286.0
Exchange rate		USD1 = AUD1.530925	USD1 = AUD1.548467	USD1 = AUD1.53798	USD1 = AUD1.387732	USD1 = AUD1.406866

Source: Fitch Ratings, Fitch Solutions, ANZ

Key Ratios

	31 Mar 24	30 Sep 23	30 Sep 22	30 Sep 21	30 Sep 20
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.3	2.4	2.2	2.2	1.5
Net interest income/average earning assets	1.7	1.9	1.8	1.7	1.5
Non-interest expense/gross revenue	51.4	49.7	50.4	50.7	50.8
Net income/average equity	10.0	10.7	11.2	9.9	5.9
Asset quality					
Impaired loans ratio	0.8	0.7	0.7	0.8	1.1
Growth in gross loans	1.1	5.2	6.7	1.9	0.5
Loan loss allowances/impaired loans	59.2	72.4	82.0	76.3	71.0
Loan impairment charges/average gross loans	0.0	0.1	0.0	-0.1	0.4
Capitalisation					
Common equity Tier 1 ratio	13.5	13.3	12.3	12.3	11.3
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.	11.9
Tangible common equity/tangible assets	5.8	5.6	5.5	5.9	5.3
Basel leverage ratio	5.4	5.4	5.4	5.5	5.4
Net impaired loans/common equity Tier 1	4.1	2.3	1.4	2.5	4.2
Net impaired loans/Fitch Core Capital	n.a.	n.a.	n.a.	n.a.	4.0
Funding and liquidity					
Gross loans/customer deposits	112.2	109.9	109.0	106.8	112.6
Gross loans/customer deposits + covered bonds	n.a.	106.9	106.7	104.1	109.5
Liquidity coverage ratio	137.5	132.9	128.7	135.8	139.4
Customer deposits/total non-equity funding	68.6	69.1	69.3	70.3	68.1
Net stable funding ratio	118.1	116.4	119.1	124.2	123.8

Source: Fitch Ratings, Fitch Solutions, ANZ

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 Government Support Rating (GSR) reflects its systemic importance as an Australian D-SIB, highlighted by the bank's 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 Australian authorities, if needed, as a result.

The GSR also reflects a strong ability to support, as reflected in Australia's sovereign rating, and an historical propensity for the authorities to support senior creditors of banks. This was evident during the global financial crisis of 2008 in the implementation of a government guarantee for senior bonds, 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 offset any reduced ability to do so.

Criteria Variations

Fitch applied a variation from its *Bank Rating Criteria* by upgrading ANZ's Long-Term IDR to rate it one notch above the VR. The criteria states that an uplift is likely to be applied where a banking group's resolution plan envisages a bank's third-party senior creditors being protected on failure by a sufficient volume of qualifying junior debt and equity. We have applied the uplift without access to a plan for ANZ as the resolution and LAC framework in Australia envisage senior creditors being protected on a bank failure. We view this as effectively meeting the intent of Fitch's criteria.

Environmental, Social and Governance Considerations

FitchRatings **Australia and New Zealand Banking Group Limited**

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Australia and New Zealand Banking Group Limited has 6 ESG potential rating drivers

- 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.
- Australia and New Zealand Banking Group Limited has exposure to 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 but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	6	issues	3
not a rating driver	3	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

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.

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	3	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

CREDIT-RELEVANT ESG SCALE

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

Score	Description
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.

ANZ has an ESG Relevance Score of '3' for Exposure to Social Impacts, above the bank sector default score of '2', because of the ongoing scrutiny of the conduct and practices of Australia's largest banks by consumers and authorities after the 2018 royal commission into misconduct in the sector. This scrutiny has a minimal impact on ANZ's business profile and ratings.

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.

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