FitchRatings

Banks
Universal Commercial Banks
Australia

Australia and New Zealand Banking Group Limited

Key Rating Drivers

Ratings Reflect Standalone Strength: Australia and New Zealand Banking Group Limited's (ANZ) Issuer Default Ratings (IDRs) and senior debt ratings are driven by its Viability rating (VR), which is in line with the implied VR. The VR is underpinned by the bank's strong business profile and sound financial profile. The Stable Outlook reflects Fitch Ratings' view that ANZ has sufficient headroom in the bank's financial metrics to maintain the current rating.

Economic Growth to 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-September 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 dealt with, 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.

Modest Asset-Quality Weakening: Elevated 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 score of 'aa-' is above the implied 'a' category score to reflect the high level of collateral held over the loan book.

Earnings Headwinds: 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, at 13.3% in the financial year ended September 2023 (FY23), to remain comfortably above regulatory minimums. The ratio is likely to fall by about 120bp to around 12% if the acquisition of Suncorp-Metway Limited (SML, A/Rating Watch Positive) is completed. We expect further moderation as this level would be above the likely operating range of 11.0%-11.5% over the longer term.

Stable Funding Profile: We expect ANZ's loan/customer deposit ratio, our core funding and liquidity metric, to modestly weaken over the next two years on slowing deposit growth. Still, we believe ANZ's core metric is likely to remain slightly stronger than peers' over the next two years. ANZ's good liquidity management supports the funding and liquidity profile.

Ratings

Foreign Currency	
Long-Term IDR	A+
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 (September 2023)

Related Research

Fitch Affirms Australia and New Zealand Banking Group at 'A+'; Outlook Stable (March 2024)

Global Economic Outlook (March 2024)

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

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

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Rating Sensitivities

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

ANZ's Long-Term IDR and 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 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/risk-weighted asset (RWA) ratio falls below 1.5% for a sustained period (FY20-FY23: 2.1%);
- ANZ's CET1 ratio falls to around 10.5%, or the equivalent under the Australian Prudential Regulation Authority's (APRA) final Basel III framework, without a credible plan to raise it back above 11.0% (FY23: 13.3%).

Any downgrade of ANZ's Long-Term IDR would be limited to one notch unless the Government Support Rating (GSR) of 'a' is also downgraded.

A weakening in the authorities' propensity to provide support may result in Fitch lowering ANZ's GSR. However, this appears unlikely.

A change in the ability of the authorities to provide support is likely to be reflected in a downgrade of Australia's sovereign rating (AAA/Stable). However, this may not automatically result in a downgrade of the GSR if we believe the strength of the propensity to provide support offsets the lower ability to provide the support. Any change in the GSR would not directly affect ANZ's Long-Term IDR, which is driven by its VR.

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.

The GSR may be upgraded if Australian authorities provide additional, explicit statements of support for domestic systemically important banks, including ANZ, or otherwise provide greater certainty that support would be provided if needed.

Other Debt and Issuer Ratings

Rating Level	Rating	Outlook
Junior Subordinated: Long Term	BBB	
Senior Unsecured: Long Term	A+	
Senior Unsecured: Short Term	F1	
Subordinated: Long Term	A-	

Source: Fitch Ratings

Short-Term IDR: The Short-Term IDR of 'F1' is the lower of the two options available at a Long-Term IDR of 'A+', as the funding and liquidity score of 'a' is not high enough to support the higher option; the threshold is a score of at least '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 for markets such as Australia where there is no developed resolution regime with a realistic prospect of senior debt bail-in and no full depositor preference.

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, is 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.

Short-Term IDR

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

A downgrade of the Short-Term IDR is unlikely, as this would require the Long-Term IDR to be downgraded by at least two notches to 'A-' as well as Fitch lowering the funding and liquidity score by at least one notch to 'a-'.

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

The Short-Term IDR would be upgraded if the Long-Term IDR is upgraded. It may also be upgraded without an upgrade of the Long-Term IDR if we lift the funding and liquidity score by two notches to 'aa-'. This appears unlikely, as it would require ANZ's loan/customer deposit ratio to fall well below 100%.

Senior Unsecured Instruments

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

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

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

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

Tier 2 and Additional Tier 1 Instruments

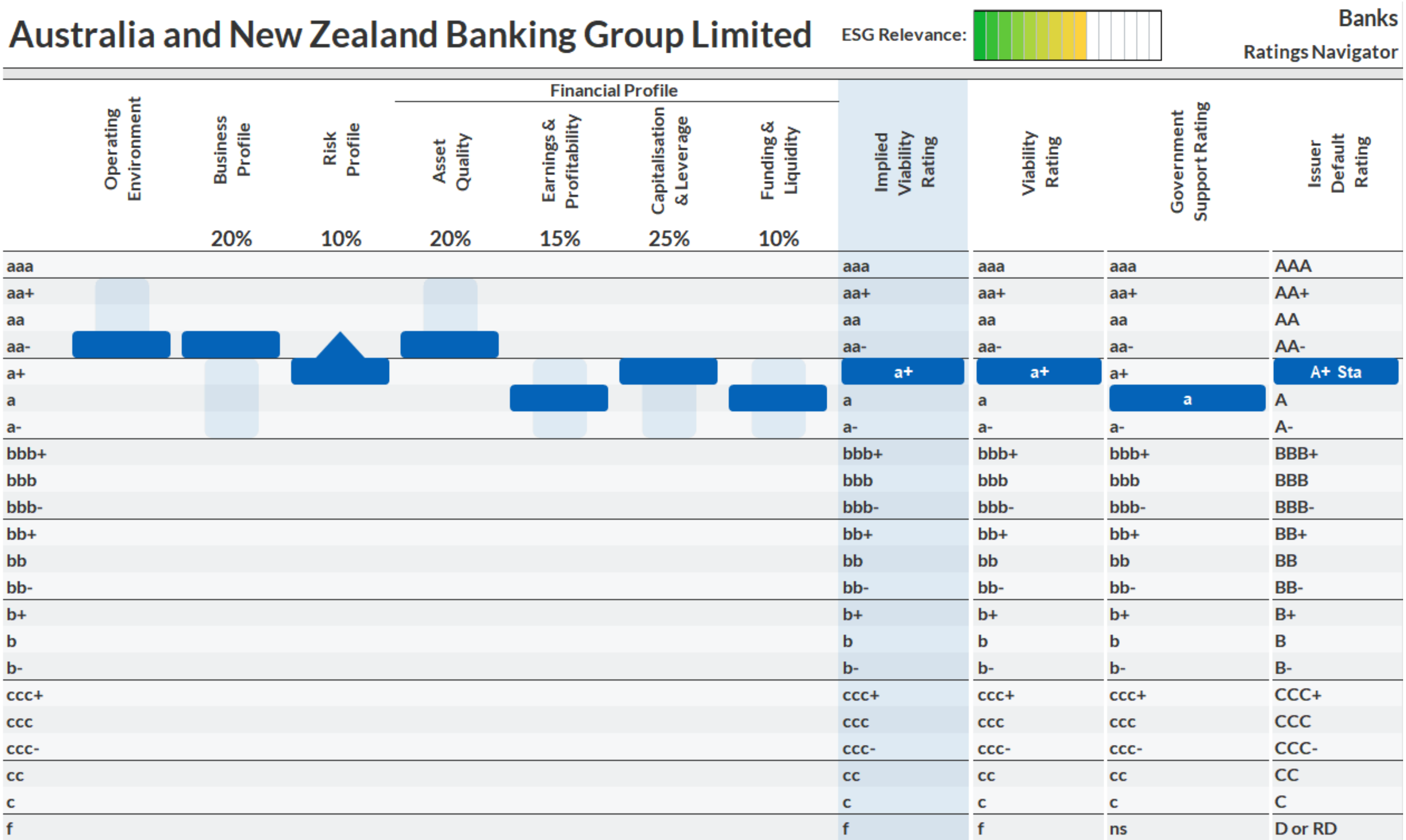
Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

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

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 for the following adjustment reason: market position (positive).

Other

The Short-Term IDR of 'F1' is the lower of the two options available at a Long-Term IDR of 'A+', as the funding and liquidity score of ‘a’ is not high enough to support the higher option; the threshold is a score of at least 'aa-'.

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 (EaD) at end-September 2023, with New Zealand making up an additional 17%. Rapid interest rate rises by central banks in both countries during 2022 and 2023 to tackle high inflation are likely to result in a slowdown in economic growth and rise in unemployment in 2024. We expect unemployment levels to rise to about 4.5% in Australia and 5% in New Zealand by 2025. Unemployment rates at these levels are unlikely to result in significant deterioration in asset quality across the system, although the higher interest rates are likely to put pressure on pockets of borrowers.

We expect the Reserve Bank of Australia to start cutting interest rates in the second half of 2024, which should also 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, resulting in an improvement in the 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. Australian household debt/disposable income was 185% at end-September 2023, while it was 165% in New Zealand at end-June 2023.

We do not use a blended approach for ANZ's operating environment score despite its higher international exposure (23% of exposure at default) excluding New Zealand, relative to peers. This is due to a significant portion of these exposures, which relate to the institution bank, being concentrated in sovereigns and financial institutions. Fitch also considers ANZ's geographic loan split which see international exposure, excluding New Zealand, reduce to around 11% of total loans.

Business Profile

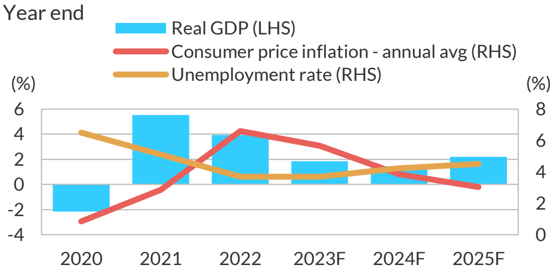
ANZ's business profile benefits form its strong market position, which provides it with significant economies of scale and pricing power relative to smaller peers. The bank's operations are geared towards traditional banking activities and it has a low reliance on volatile businesses. Its core segments are residential mortgages and commercial loans.

The completion of the SML acquisition would be positive for ANZ's market share (about a 2% increase) 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, which also have a 'aa-' business profile score. Fitch expects only modest changes to ANZ's financial profile should the acquisition be completed.

The bank continues to outline its focus on technology investment and business simplification which aims to improve longer-term efficiency and customer experience. Management strategy and execution have remained relatively consistent, which should continue to support earnings through the cycle, in Fitch's view.

Australia Economy

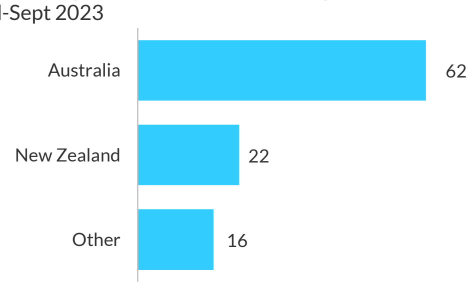
Year end



F - Forecast.
Source: Fitch Ratings

Operating Income Split by Geography (%)

End-Sept 2023



Source: Fitch Ratings, Fitch Solutions, ANZ

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.

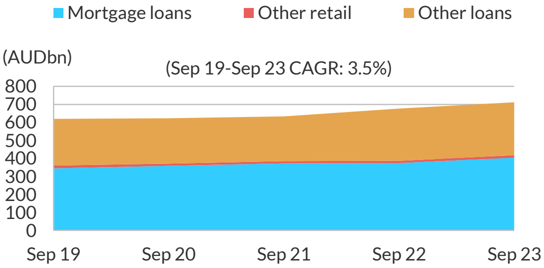
Risks in ANZ's residential mortgage portfolio appear to be well managed, with exposure to some riskier loan types, such as investor and interest-only mortgages, falling significantly since FY17. Buffers in the Australian mortgage portfolio remain high, with a portfolio dynamic loan/value ratio of 49% 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, and 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 EaD. 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 modest and broadly aligned with 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.

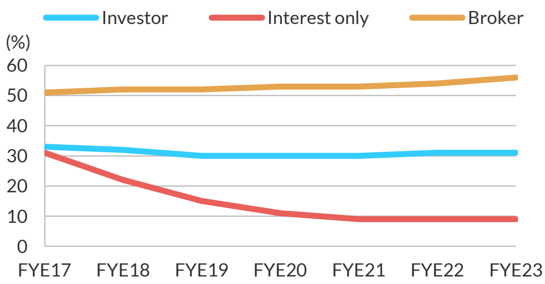
Loan Book Breakdown



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

Mortgage Portfolio

% of Australian mortgages



Source: Fitch Ratings, ANZ

Financial Profile

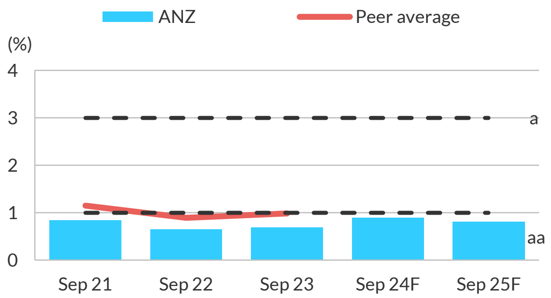
Asset Quality

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 0.7% reported at FYE23.

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 provide 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 emerge first from ANZ’s business loan portfolio.

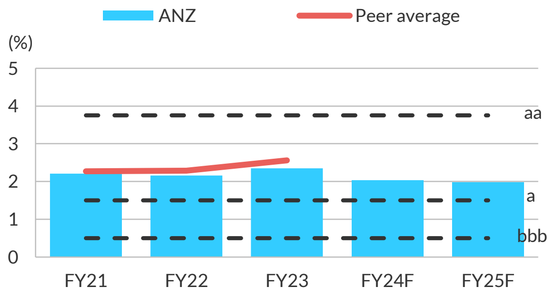
Loan-loss allowance coverage of impaired loans is likely to decline as impaired loan balances rise. Coverage was 72% at FYE23, which we believe is adequate, considering the high collateral coverage (around 80%) over ANZ’s net loans and advances. We expect loan-loss allowance coverage to decline modestly 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



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

Operating Profit/Risk-Weighted Assets



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

We expect the headwinds to ANZ’s profitability that emerged in the second half of 2023 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 could see the cost/income ratio increase to the low 50s in percentage terms.

ANZ’s operating profit/RWA ratio was 2.4% in FY23 and we forecast it to 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 of the peer group, to become consistent with peers should the SML acquisition be 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 reduction in ANZ’s RWAs. This was a key driver of the 100bp increase in CET1 ratio to 13.3% in FY23.

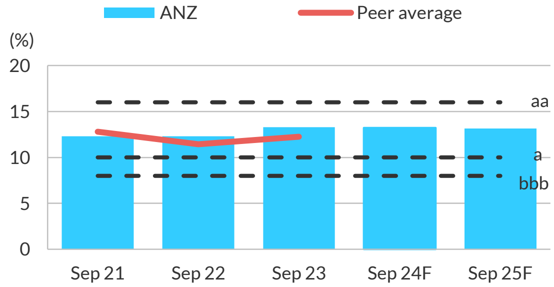
Excluding the capital held for the SML acquisition, ANZ's capital ratios are generally in line with other large Australian banks but appear lower in an international context. This is due to APRA's conservative approach to capital and RWA calculation compared with international standards, even after an increase in granularity under the final Basel III rules.

At FYE23, ANZ estimates it's CET1 ratio at 19.7% on an internationally comparable basis, 640bp 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+'.

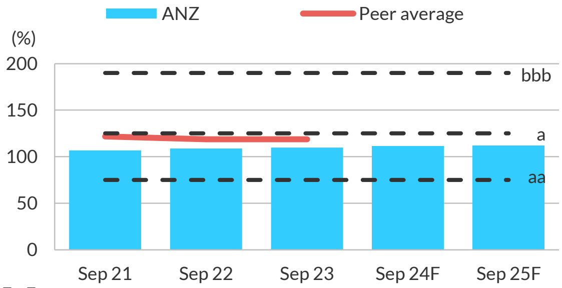
The loss-absorbing capacity requirement appears to be manageable for ANZ. APRA requires Australia's domestic systemically important banks (D-SIBs), including ANZ, to meet these requirements using existing capital instruments, which is in practice through the issuance of Tier 2 debt. The initial requirement for D-SIBs to have an additional loss-absorbing capacity of 3.0pp of RWAs was implemented at the start of 2024 and this moves to 4.5pp by January 2026.

CET1 Ratio



F - Forecast
Source: Fitch Ratings, Fitch Solutions, banks

Gross Loans/Customer Deposits



F - Forecast
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 more normal levels after being subdued due to central bank funding facilities provided during the pandemic. We expect ANZ to have little difficulty accessing markets to refinance 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+). The financial year-end for ANZ, National Australia Bank and Westpac is 30 September. Financial year-end for Commonwealth Bank of Australia is 30 June.

Financials

Summary Financials

	30 Sep 23		30 Sep 22	30 Sep 21	30 Sep 20	30 Sep 19
	Year end (USDm) Audited - unqualified	Year end (AUDm) Audited - unqualified	Year end (AUDm) Audited - unqualified	Year end (AUDm) Audited - unqualified	Year end (AUDm) Audited - unqualified	Year end (AUDm) Audited - unqualified
Summary income statement						
Net interest and dividend income	10,704	16,575.0	14,874.0	14,161.0	14,049.0	14,339.0
Net fees and commissions	1,257	1,946.0	1,972.0	2,143.0	2,325.0	2,577.0
Other operating income	1,284	1,988.0	2,335.0	1,367.0	2,085.0	1,732.0
Total operating income	13,245	20,509.0	19,181.0	17,671.0	18,459.0	18,648.0
Operating costs	6,514	10,087.0	9,579.0	9,051.0	9,306.0	9,071.0
Pre-impairment operating profit	6,731	10,422.0	9,602.0	8,620.0	9,153.0	9,577.0
Loan and other impairment charges	158	245.0	-232.0	-567.0	2,738.0	794.0
Operating profit	6,572	10,177.0	9,834.0	9,187.0	6,415.0	8,783.0
Other non-operating items (net)	-28	-43.0	226.0	-268.0	-997.0	-206.0
Tax	1,899	2,941.0	2,940.0	2,756.0	1,840.0	2,609.0
Net income	4,645	7,193.0	7,120.0	6,163.0	3,578.0	5,968.0
Other comprehensive income	527	816.0	-3,735.0	-304.0	-111.0	1,359.0
Fitch comprehensive income	5,172	8,009.0	3,385.0	5,859.0	3,467.0	7,327.0
Summary balance sheet						
Assets						
Gross loans	459,319	711,240.0	675,989.0	633,764.0	622,074.0	618,767.0
- Of which impaired	3,161	4,895.0	4,371.0	5,303.0	7,018.0	6,677.0
Loan loss allowances	2,290	3,546.0	3,582.0	4,045.0	4,981.0	3,509.0
Net loans	457,029	707,694.0	672,407.0	629,719.0	617,093.0	615,258.0
Interbank	6,038	9,349.0	4,762.0	7,530.0	7,541.0	3,739.0
Derivatives	39,010	60,406.0	90,174.0	38,736.0	135,331.0	120,667.0
Other securities and earning assets	88,019	136,294.0	123,571.0	129,786.0	146,468.0	129,835.0
Total earning assets	590,095	913,743.0	890,914.0	805,771.0	906,433.0	869,499.0
Cash and due from banks	114,538	177,358.0	168,764.0	151,931.0	108,724.0	97,506.0
Other assets	9,648	14,940.0	26,051.0	21,155.0	27,129.0	14,132.0
Total assets	714,281	1,106,041.0	1,085,729.0	978,857.0	1,042,286.0	981,137.0
Liabilities						
Customer deposits	418,091	647,400.0	620,430.0	593,582.0	552,363.0	511,693.0
Interbank and other short-term funding	108,367	167,803.0	176,851.0	149,474.0	139,274.0	122,101.0
Other long-term funding	69,606	107,782.0	86,029.0	76,341.0	99,029.0	121,520.0
Trading liabilities and derivatives	40,523	62,749.0	88,388.0	36,035.0	134,711.0	120,951.0
Total funding and derivatives	636,587	985,734.0	971,698.0	855,432.0	925,377.0	876,265.0
Other liabilities	27,744	42,961.0	39,925.0	35,036.0	34,973.0	35,907.0
Preference shares and hybrid capital	5,647	8,744.0	8,189.0	24,713.0	20,639.0	8,171.0
Total equity	44,303	68,602.0	65,917.0	63,676.0	61,297.0	60,794.0
Total liabilities and equity	714,281	1,106,041.0	1,085,729.0	978,857.0	1,042,286.0	981,137.0
Exchange rate		USD1 = AUD1.548467	USD1 = AUD1.53798	USD1 = AUD1.387732	USD1 = AUD1.406866	USD1 = AUD1.4817

Source: Fitch Ratings, Fitch Solutions, ANZ

Key Ratios

	30 Sep 23	30 Sep 22	30 Sep 21	30 Sep 20	30 Sep 19
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.4	2.2	2.2	1.5	2.1
Net interest income/average earning assets	1.9	1.8	1.7	1.5	1.7
Non-interest expense/gross revenue	49.7	50.4	50.7	50.8	49.3
Net income/average equity	10.7	11.2	9.9	5.9	9.9
Asset quality					
Impaired loans ratio	0.7	0.7	0.8	1.1	1.1
Growth in gross loans	5.2	6.7	1.9	0.5	1.7
Loan loss allowances/impaired loans	72.4	82.0	76.3	71.0	52.6
Loan impairment charges/average gross loans	0.1	0.0	-0.1	0.4	0.1
Capitalisation					
Common equity Tier 1 ratio	13.3	12.3	12.3	11.3	11.4
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.	11.9	12.1
Tangible common equity/tangible assets	5.6	5.5	5.9	5.3	5.6
Basel leverage ratio	5.4	5.4	5.5	5.4	5.6
Net impaired loans/common equity Tier 1	2.3	1.4	2.5	4.2	6.7
Net impaired loans/Fitch Core Capital	n.a.	n.a.	n.a.	4.0	6.3
Funding and liquidity					
Gross loans/customer deposits	109.9	109.0	106.8	112.6	120.9
Gross loans/customer deposits + covered bonds	106.9	106.7	104.1	109.5	116.2
Liquidity coverage ratio	132.9	128.7	135.8	139.4	142.6
Customer deposits/total non-equity funding	69.1	69.3	70.3	68.1	67.0
Net stable funding ratio	116.4	119.1	124.2	123.8	116.4

Source: Fitch Ratings, Fitch Solutions, ANZ

Support Assessment

Commercial Banks: Government Support Rating KRDs	
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 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 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, reinforced by the regulatory approach to loss-absorbing capacity, 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.

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 result in 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?

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', due to the ongoing scrutiny of the conduct and practices of Australia's largest banks by consumers and authorities. This scrutiny has only a minimal impact on ANZ's business profile and ratings.

The highest level 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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