

# Australia and New Zealand Banking Group Limited

## Key Rating Drivers

**Coronavirus Impact Drives Downgrade:** The downgrade of Australia and New Zealand Banking Group Limited's (ANZ) Issuer Default Ratings (IDR) and Viability Rating (VR) reflects Fitch Ratings' expectation of weaker asset quality and earnings core metrics driven by the economic impact of the coronavirus pandemic. Significant economic support measures have been introduced by the government and the Reserve Bank, but Fitch believes these measures will be insufficient for ANZ to maintain a financial profile consistent with a 'aa-' VR.

The Negative Outlook reflects significant downside risk to Fitch's baseline case for the economic impact of the measures taken to combat coronavirus in Australia. Fitch believes a more severe and prolonged downturn would result in a shallower recovery in 2021, and could exert further pressure on ANZ's ratings.

**Asset Quality and Earnings Downside:** Fitch's baseline case is for an economic recovery to start in Australia in the latter half of 2020, which would be likely to support the current operating environment mid-point of 'aa-' returning to a stable outlook. However, we expect asset quality and earnings to still be affected by the downturn, and recovery may take some time. Weaker asset quality may take some time to develop due to actions by the bank and the authorities, but we expect a more immediate impact on earnings.

**Appropriate Capital Buffers:** Fitch believes ANZ has sufficient capital buffers to maintain the current mid-point of 'a+', even if conditions were to weaken moderately beyond our baseline case. The common equity Tier 1 ratio was 11.4% at end-September 2019 on a local regulatory basis, which the bank calculates is equal to 16.4% on an internationally comparable basis.

**Funding and Liquidity Remains Stable:** Issuance prior to the downturn in addition to central bank liquidity and funding facilities means there is limited pressure on ANZ's funding profile or liquidity position in the short term. However, the reliance on offshore wholesale funding remains a weakness at the current rating level relative to some international peers.

**Franchise Strength Maintained:** ANZ's strong banking franchise in Australia and New Zealand continues to underpin its ratings and support its financial profile at the current rating level. The downturn is likely to moderate some of the competitive pressures experienced prior to the pandemic.

## Rating Sensitivities

**Negative Action:** ANZ's IDRs, VR and senior debt ratings could be downgraded if the economic environment deteriorates significantly beyond our baseline case scenario. Under this scenario, we would expect to lower the operating environment mid-point to 'a+', which could result in a lowering of our assessment of most of the financial profile factors. Any downgrade would be limited to one notch unless the Support Rating Floor of 'A' were also downgraded.

**Positive Action:** Our Outlook on ANZ may be revised to Stable if the downturn aligns broadly with our base-case expectations. ANZ's VR and IDRs may be upgraded if the economic downturn is shallower and recovery quicker than our baseline case – as this may result in the bank's financial profile metrics, particularly asset quality and to a lesser extent, earnings, remaining more consistent with a VR in the 'aa' range.

## Ratings

### Foreign Currency

Long-Term IDR	A+
Short-Term IDR	F1

Viability Rating	a+
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Support Rating	1
Support Rating Floor	A

### Sovereign Risk

Long-Term Foreign-Currency IDR	AAA
Long-Term Local-Currency IDR	AAA
Country Ceiling	AAA

### Outlooks

Long-Term Foreign-Currency IDR	Negative
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

## Applicable Criteria

[Bank Rating Criteria \(February 2020\)](#)

## Related Research

[Australia and New Zealand Banking Group - Ratings Navigator \(April 2020\)](#)

[Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases \(April 2020\)](#)

[Global Economic Outlook - Crisis Update Late April 2020 - Coronavirus Recession Unparalleled \(April 2020\)](#)

[Australia Steps Up Economic Support, Banks to Still Feel Pain \(March 2020\)](#)

[Australian Coronavirus Response Highlights Support for Banks \(March 2020\)](#)

[Coronavirus Adds Pressure to Australia, New Zealand Bank Earnings \(March 2020\)](#)

[Australia and New Zealand Banking Group \(February 2020\)](#)

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## Summary Financials and Key Ratios

	Year end (USDm) Audited - unqualified	30 Sep 19 Year end (AUDm) Audited - unqualified	30 Sep 18 Year end (AUDm) Audited - unqualified	30 Sep 17 Year end (AUDm) Audited - unqualified	30 Sep 16 Year end (AUDm) Audited - unqualified
<b>Summary income statement</b>					
Net interest and dividend income	9,677	14,339.0	14,514.0	14,875.0	15,095.0
Net fees and commissions	1,739	2,577.0	2,254.0	2,453.0	2,578.0
Other operating income	1,169	1,732.0	2,552.0	2,725.0	3,021.0
Total operating income	12,586	18,648.0	19,320.0	20,053.0	20,694.0
Operating costs	6,122	9,071.0	9,248.0	9,195.0	10,422.0
Pre-impairment operating profit	6,464	9,577.0	10,072.0	10,858.0	10,272.0
Loan and other impairment charges	536	794.0	688.0	1,198.0	2,189.0
Operating profit	5,928	8,783.0	9,384.0	9,660.0	8,083.0
Other non-operating items (net)	-139	-206.0	-184.0	-365.0	95.0
Tax	1,761	2,609.0	2,784.0	2,874.0	2,458.0
Net income	4,028	5,968.0	6,416.0	6,421.0	5,720.0
Other comprehensive income	917	1,359.0	316.0	-1,040.0	-585.0
Fitch comprehensive income	4,945	7,327.0	6,732.0	5,381.0	5,135.0
<b>Summary balance sheet</b>					
<b>Assets</b>					
Gross loans	417,606	618,767.0	607,813.0	578,129.0	580,035.0
- Of which impaired	4,506	6,677.0	1,676.0	2,118.0	2,646.0
Loan loss allowances	2,368	3,509.0	3,349.0	3,798.0	4,183.0
Net loans	415,238	615,258.0	604,464.0	574,331.0	575,852.0
Interbank	22,415	33,213.0	23,473.0	20,878.0	17,545.0
Derivatives	81,438	120,667.0	68,423.0	62,518.0	87,496.0
Other securities and earning assets	114,813	170,118.0	153,904.0	183,667.0	184,152.0
Total earning assets	633,904	939,256.0	850,264.0	841,394.0	865,045.0
Cash and due from banks	18,728	27,749.0	36,062.0	27,706.0	29,771.0
Other assets	12,061	17,871.0	56,856.0	28,226.0	20,053.0
Total assets	662,170	981,137.0	943,182.0	897,326.0	914,869.0
<b>Liabilities</b>					
Customer deposits	345,342	511,693.0	486,420.0	466,676.0	448,140.0
Interbank and other short-term funding	82,406	122,101.0	138,272.0	140,075.0	157,066.0
Other long-term funding	89,986	133,332.0	113,262.0	99,521.0	103,551.0
Trading liabilities and derivatives	81,630	120,951.0	69,676.0	62,252.0	88,725.0
Total funding	599,364	888,077.0	807,630.0	768,524.0	797,482.0
Other liabilities	16,262	24,095.0	68,228.0	61,275.0	49,967.0
Preference shares and hybrid capital	5,515	8,171.0	7,917.0	8,452.0	9,493.0
Total equity	41,030	60,794.0	59,405.0	59,075.0	57,927.0
Total liabilities and equity	662,170	981,137.0	943,182.0	897,326.0	914,869.0
Exchange rate		USD1 = AUD1.4817	USD1 = AUD1.384657	USD1 = AUD1.27567	USD1 = AUD1.3106

Source: Fitch Ratings, Fitch Solutions, ANZ

## Summary Financials and Key Ratios

	30 Sep 19	30 Sep 18	30 Sep 17	30 Sep 16
<b>Ratios (annualised as appropriate)</b>				
<b>Profitability</b>				
Operating profit/risk-weighted assets	2.1	2.4	2.5	2.0
Net interest income/average earning assets	1.7	1.8	2.0	2.1
Non-interest expense/gross revenue	49.3	48.3	46.6	51.7
Net income/average equity	9.9	10.8	11.0	10.0
<b>Asset quality</b>				
Impaired loans ratio	1.1	0.3	0.4	0.5
Growth in gross loans	1.8	5.1	-0.3	2.5
Loan loss allowances/impaired loans	52.6	199.8	179.3	158.1
Loan impairment charges/average gross loans	0.1	0.1	0.2	0.4
<b>Capitalisation</b>				
Common equity Tier 1 ratio	11.4	11.4	10.6	9.6
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	12.1	12.6	11.4	10.4
Tangible common equity/tangible assets	5.6	5.7	5.8	5.5
Basel leverage ratio	5.6	5.5	5.4	5.3
Net impaired loans/common equity Tier 1	6.7	-3.7	-4.1	-3.9
Net impaired loans/Fitch Core Capital	6.3	-3.4	-3.8	-3.6
<b>Funding and liquidity</b>				
Loans/customer deposits	120.9	125.0	123.9	129.4
Liquidity coverage ratio	142.6	138.0	135.0	126.0
Customer deposits/funding	66.0	65.2	65.3	62.4
Net stable funding ratio	116.4	114.6	n.a.	n.a.

Source: Fitch Ratings, Fitch Solutions, ANZ

## Environmental, Social and Governance Considerations

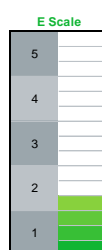
### FitchRatings Australia and New Zealand Banking Group Limited

#### Credit-Relevant ESG Derivation

			Overall ESG Scale	
Australia and New Zealand Banking Group Limited has 6 ESG potential rating drivers			key driver	5
<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Governance is minimally relevant to the rating and is not currently a driver.</li> </ul>			driver	4
			potential driver	3
				2
			not a rating driver	1

#### Environmental (E)

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



#### How to Read This Page

ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

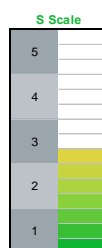
The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with 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) and the Sustainability Accounting Standards Board(SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

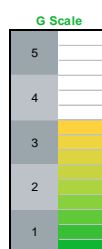
#### Social (S)

General Issues	S Score	Sector-Specific Issues	Reference
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities; SME and community development programs; financial literacy programs	Company Profile; Management & Strategy; Risk Appetite
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; Company Profile; Management & Strategy; Risk Appetite
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Company Profile; Management & Strategy
Employee Wellbeing	1	n.a.	n.a.
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	Company Profile; Financial Profile



#### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference
Management Strategy	3	Operational implementation of strategy	Management & Strategy
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	Management & Strategy; Earnings & Profitability; Capitalisation & Leverage
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Company Profile
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Management & Strategy



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.

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