FitchRatings

Banks
Universal Commercial Banks
Australia

Australia and New Zealand Banking Group Limited

Key Rating Drivers

Economic Growth to Slow: Fitch Ratings expects high inflation and rising interest rates to slow economic growth and increase unemployment in Australia and New Zealand, the two main markets of Australia and New Zealand Banking Group Limited (ANZ), in 2023. However, we expect the weakening to be manageable and not result in sharp asset-quality deterioration. We factor in high household leverage into our operating environment assessment as households would be susceptible to sharp rate hikes, resulting in a score at the lower end of the 'aa' category.

Strong Market Positions: ANZ is Australia's fourth-largest bank, accounting for 14% of system assets at end-December 2022. 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.

Robust Risk Management: Several years of remediation expenditure and organisational improvement have strengthened non-financial risk management, reflected in the positive outlook on the risk profile score. Credit risk, which stems from lending activities, continues to be the bank's main risk. ANZ's underwriting standards and sound financial risk management should limit deterioration in asset quality from high inflation and rapidly rising interest rates.

Manageable Asset-Quality Weakening: ANZ's stage 3 loan/gross loan ratio is among the best in its peer group, but it is unlikely to be shielded from higher interest rates, inflation and a modest increase in unemployment. We expect an increase in ANZ's stage 3 loan/gross loan ratio through to the financial year ending September 2024 (FY24), but the ratio is likely to remain below 1.5%, with a four-year average of around 1.2%, which remains broadly commensurate with the assigned asset-quality 'aa-' score.

Earnings Headwinds to Increase: We expect ANZ's earnings metrics to face some pressure in the next two years, but remain at levels commensurate with the assigned 'a' score. Tailwinds to the net interest margin from rising rates are likely to peak in FY23. We expect some margin pressure in FY24 due to intensifying competition, easing interest rates and rising funding costs. Impairment charges are likely to normalise from very low levels currently, while improvements in operating expenses will be limited by inflation and ongoing high investment expenditure.

Possible Uplift in Capital Ratios: We expect ANZ's common equity Tier 1 (CET1) ratio to remain commensurate with the capitalisation and leverage score of 'a+' over the next two years. The Australian version of the final Basel III rules, effective from the start of 2023, could result in lower risk-weighted assets and a higher CET1 ratio for ANZ.

The impact of the new rules should be evident in the financial report for the period ending March 2023. The new framework retains a level of conservatism relative to global rules, meaning the CET1 ratio will remain modest compared with that of some international peers. We therefore consider other metrics in addition to the CET1 ratio to assess ANZ's capitalisation score.

Stable Funding Profile: We expect ANZ's loan/customer deposit ratio, our core funding and liquidity metric, to remain at the top of the domestic major bank peer group over the next two years. Some modest weakening is possible if the current rate of loan growth is maintained, although this is unlikely to pressure the 'a' score. We view ANZ's good liquidity management as positive for the funding and liquidity profile, which explains why the score is higher than the implied 'bbb' category score.

Ratings

Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Viability Rating	a+
Government Support Rating	a
Sovereign Risk (Australia)	
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 2022)

Related Research

Global Economic Outlook (March 2023)

APAC Developed Market Banks Outlook 2023 (November 2022)

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Rating Sensitivities

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

IDRS and VR

ANZ's Long-Term IDR and VR could be downgraded if the operating environment weakens sharply, resulting in a downward change of the score into the 'a' category as this would likely result in a reassessment of most other factors. We believe this is unlikely, but it could occur if inflation remains high, requiring increases in the cash rate well beyond our forecast that result in a much sharper decline in GDP growth and a rapid increase in unemployment.

These 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 at around or above 2.0% (FYE22: 0.9%);
- The four-year average of the operating profit/risk-weighted asset ratio falls below 1.5% consistently (FYE22: 2.0%);
- The CET1 ratio falls to around 10.5% without a credible plan to raise it back above 11.0% (1QFY23: 12.2%).

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

A downgrade of the Short-Term IDR and short-term senior debt ratings 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

IDRS and VR

ANZ's IDRs, VR and senior debt ratings may be upgraded if a combination of the following occurs:

- The four-year average of operating profit/risk-weighted asset ratio is likely to improve to above 3% on a sustained basis;
- ANZ commits to maintaining capitalisation at levels consistent with more highly rated peers, possibly reflected in the CET1 ratio at above 12.5%.

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

Other Debt and Issuer Ratings

Rating Level	Rating
Long-term Senior unsecured	A+
Short-term Senior unsecured	F1
Long-term Subordinated	A-
Long-Term Additional Tier 1	BBB

Source: Fitch Ratings

ANZ's senior unsecured debt ratings are aligned with the IDRs, consistent with the baseline approach outlined in Fitch's Bank Rating Criteria.

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

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 are present.

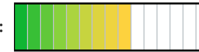
Sensitivities

The senior unsecured debt ratings will move in line with ANZ's IDRs.

The Tier 2 and Additional Tier 1 debt ratings will move in line with ANZ's VR.

Ratings Navigator

Australia and New Zealand Banking Group Limited

ESG Relevance: 

Banks
Ratings Navigator

	Operating Environment	Business Profile	Risk Profile	Asset Quality (Financial Profile)	Earnings & Profitability (Financial Profile)	Capitalisation & Leverage (Financial Profile)	Funding & Liquidity (Financial Profile)	Implied Viability Rating	Viability Rating	Government Support Rating	Issuer Default Rating
		20%	10%	20%	15%	25%	10%				
aaa								aaa	aaa	aaa	AAA
aa+								aa+	aa+	aa+	AA+
aa								aa	aa	aa	AA
aa-								aa-	aa-	aa-	AA-
a+								a+	a+	a+	A+ Sta
a								a	a	a	A
a-								a-	a-	a-	A-
bbb+								bbb+	bbb+	bbb+	BBB+
bbb								bbb	bbb	bbb	BBB
bbb-								bbb-	bbb-	bbb-	BBB-
bb+								bb+	bb+	bb+	BB+
bb								bb	bb	bb	BB
bb-								bb-	bb-	bb-	BB-
b+								b+	b+	b+	B+
b								b	b	b	B
b-								b-	b-	b-	B-
ccc+								ccc+	ccc+	ccc+	CCC+
ccc								ccc	ccc	ccc	CCC
ccc-								ccc-	ccc-	ccc-	CCC-
cc								cc	cc	cc	CC
c								c	c	c	C
f								f	f	ns	D or RD

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 – Key Rating Drivers Adjustments

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

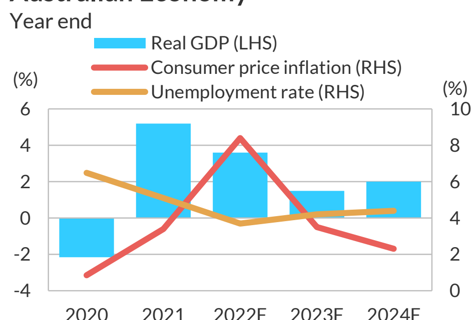
Company Summary and Key Qualitative Factors

Operating Environment

We expect the economic environment in Australia and New Zealand to become increasingly challenging for banks during 2023 – Australia accounted for 60% of ANZ's exposure at default (EaD) at end-2022, with New Zealand making up an additional 16%. Central banks in both markets continue raise interest rates quickly to address high inflation, which we expect to slow economic growth and increase unemployment. However, we expect unemployment to remain strong relative to historical levels. This means asset quality should not deteriorate sharply across the system, although pockets of borrowers are likely to be pressured by the higher interest rates.

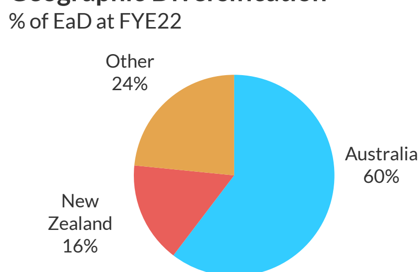
House prices fell in 2022 and we expect further falls in 2023 as higher interest rates reduce borrowing capacity and serviceability assessments. This correction follows a sharp increase in house prices during 2020 and 2021 and negative equity among borrowers remains very low. However, it is likely to add further pressure on consumption, particularly in light of the high household leverage in Australia. We factor this into our operating environment assessment by placing the score at the lower end of the 'aa' category. Household debt/disposable income was 189% at end-September 2022, which is a record high level.

Australian Economy
Year end



Source: Fitch Ratings

Geographic Diversification
% of EaD at FYE22



Source: Fitch Ratings, ANZ Pillar 3

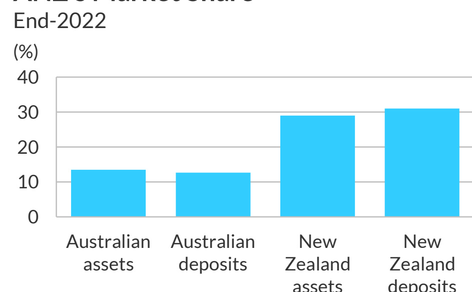
Business Profile

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.

ANZ's total loan and asset market shares in Australia weakened by around 1pp over the last few years as competitors met a surge in residential mortgage demand, while ANZ faced operational and processing constraints. The bank appears to have addressed these issues, but we believe it would take some time to reclaim the lost share given the intense competition.

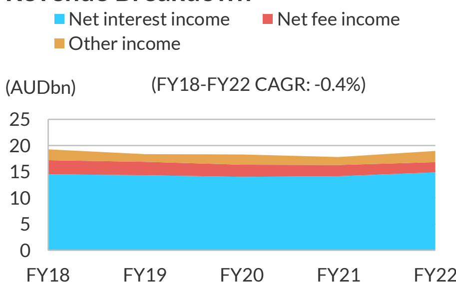
ANZ's strategy has remained relatively consistent. Key objectives remain focused on digitising the bank and improving efficiency through higher investment in technology. We believe the bank has historically executed financial objectives well, which should continue.

ANZ's Market Share
End-2022



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

Revenue Breakdown



CAGR: compounded annual growth rate
Source: Fitch Ratings, ANZ

Risk Profile

We believe ANZ's risk control framework, particularly for non-financial risks has improved significantly over the last few years since the bank undertook its remediation programme. The regulator continues to impose an additional risk capital charge of AUD500 million, but it remains manageable for the bank. While we no longer anticipate large remediation costs related to prior shortcomings to continue, conduct and cyber risks remain high and we have retained the risk profile score at 'a+', one notch below the business profile and asset quality scores.

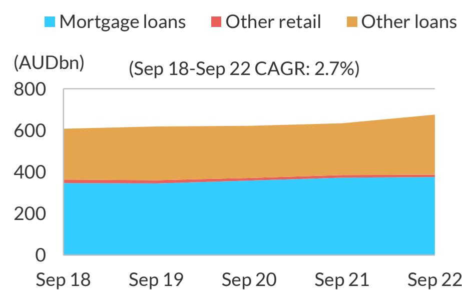
Credit risk remains ANZ's largest risk, accounting for 80% of risk-weighted assets (RWAs) at end-1QFY23. The credit risk arises largely from the loan book (62% of total assets at FYE22), with mortgages being the largest segment (55% of gross loans), which is unlikely to change.

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 48% at FYE22, while offset accounts were equivalent to over 13% of Australian mortgage balances. However, rapid interest rate increases mean some borrowers will face repayments in 2023 above levels at which they were assessed when obtaining the loans – we expect this to contribute to an increase in residential mortgage arrears during the year.

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 the largest exposure segments outside of retail, and combined account for about 10% of EaD. ANZ has a larger institutional exposure to Asia than peers, but the portfolio is skewed towards short-term and investment-grade lending.

We expect loan growth to slow in 2023 for the system as demand reduces amid higher interest rates. However, ANZ's strong residential and business lending franchises should allow the bank to grow at or around system levels over the long term. Strong growth at 1QFY23 suggests ANZ could see above system growth for FY23, but we do not expect this to pressure capitalisation.

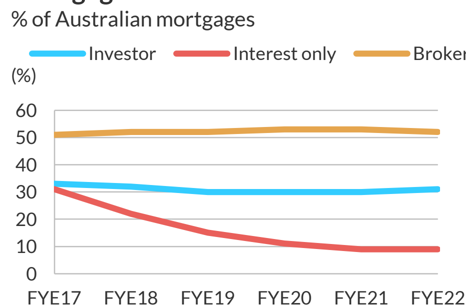
Loan Book Breakdown



CAGR: compounded annual growth rate
Source: Fitch Ratings, ANZ

Mortgage Portfolio

% of Australian mortgages



Source: Fitch Ratings, ANZ

Financial Profile

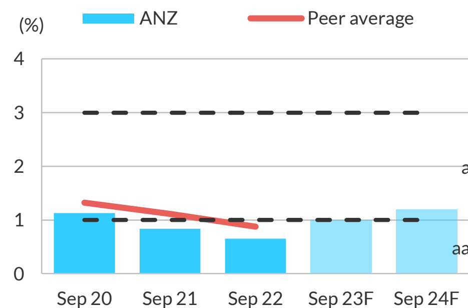
Asset Quality

We expect asset-quality metrics to weaken through to FY24 due to the sharp rise in interest rates, strong inflation and our expectations for a modest rise in unemployment. However, we forecast unemployment to remain relatively low, which reduces the risk of significant arrears and losses from ANZ's residential mortgage and business lending portfolio in the short term.

Other factors, such as a low average loan/value ratio (LVR), use of lenders' mortgage insurance for higher LVR loans, strengthened underwriting and borrower prepayments, also provide some buffers against significant losses in the residential mortgage portfolio. Therefore, significant losses, although not our base case, are still most likely to emerge first from ANZ's business loan portfolio. We expect ANZ's stage 3 loans/gross loans to increase to around 1.2% by FYE24 from the 0.7% reported at FYE22.

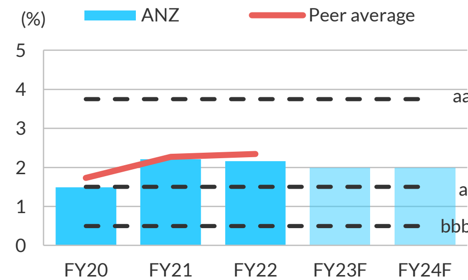
Loan-loss allowance coverage of impaired loans is likely to decline as impaired loan balances rise. Coverage was 78% at end-2022, which we believe is adequate, considering the high collateral coverage (around 79%) over ANZ's net loans and advances.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

We expect ANZ's core metric, operating profit/RWAs, to be around 2% over the next two years (FYE22: 2.2%), which will remain consistent with the assigned factor score of 'a'. Some weakening in the net interest margin in 2024 is likely, but should be manageable by the bank. The move to the final Basel III framework will likely see in a reduction in RWAs and, therefore, a modest increase to the core metric.

We anticipate a reasonable improvement in net interest margins for FY23 due to the rapid cash rate increases in 2022, but then expect margins to contract in FY24. We expect the cash rate to peak in both Australia and New Zealand during the first half of 2023, with higher funding costs and competition for loans pressuring the net interest margin in the later part of the year.

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. Revenue growth is likely to outpace cost growth in FY23, resulting in the cost/income ratio falling towards 47%, but the ratio could weaken modestly in FY24.

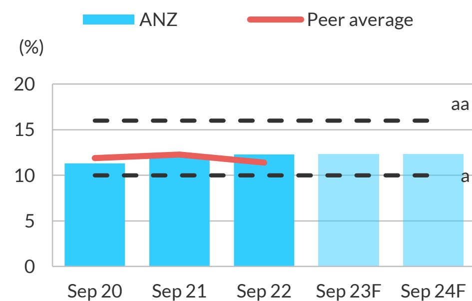
Capitalisation and Leverage

We expect ANZ's CET1 ratio, which is the highest of the peer group, to remain broadly stable at FYE23 but move closer towards that of peers should the proposed acquisition of Suncorp-Metway Limited (A/Rating Watch Positive) be approved. Our current assumptions also exclude the impact of the final Basel III rules. The new rules increase granularity in risk weighting and remove some of the conservative settings employed by the Australian regulator under the old framework and could lead to a reduction in ANZ's RWAs. We expect ANZ to manage the CET1 ratio within a range of 11.0%-11.5% once the new framework and acquisition are factored in.

ANZ's capital ratios are generally in line with those of domestic major bank peers, but appear modest appear in an international context. This is due to the Australian Prudential Regulation Authority's (APRA) conservative approach to capital calculation and risk-weighting, even after the adoption of the final Basel III rules. ANZ's un-risk-weighted metrics, such as the Basel leverage ratio and tangible common equity/tangible assets, compare more favourably with those of global peers and support our assessment of the 'a+' capitalisation and leverage score.

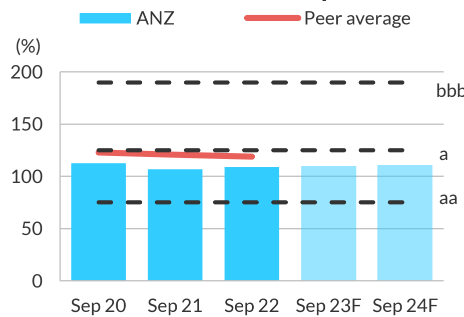
The loss-absorbing capacity requirement appears to be manageable for ANZ. APRA requires Australia's domestic systemically important banks, including ANZ, to meet these requirements using existing capital instruments, which is in practice through the issuance of Tier 2 debt. The domestic systemically important banks are required to have an additional loss-absorbing capacity of 3.0pp of their RWAs over their regulatory minimum requirements by January 2024 and 4.5pp by January 2026.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

We expect most of the improvement in ANZ's loan/customer deposit ratio during the pandemic to be sustained over the medium term. Deposit growth is likely to slow in 2023 as the central banks' liquidity measures are unwound while ANZ is likely to maintain loan growth above some of its peers, which may lead to a modest decline in the core ratio.

Australian banks, including ANZ, are likely to continue to rely on wholesale funding from offshore markets, which we continue to view as a weakness relative to similarly rated peers overseas. Wholesale issuance has increased to more normalised levels following several years of almost no issuance due to the provision of cheap funding during the pandemic through the Reserve Bank of Australia's (RBA) term funding facility (TFF). The bulk of the TFF matures in FY24 and ANZ should not have difficulty accessing markets to refinance these borrowings.

ANZ's liquidity management remains strong and the bank managed the removal of the committed liquidity facility (CLF) with little difficulty. The CLF, which allowed banks to place assets with the RBA to source emergency funding, was established to offset the lack of government and semi-government debt in Australia. The pool of these instruments has grown during the pandemic, meaning APRA deemed the CLF was no longer required to meet Basel liquidity requirements.

The bank maintains its regulatory liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) well above the 100% minimum. The December 2022 quarterly average LCR was 126%, while the NSFR was 119% at FYE22.

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.

Fitch, to the extent itis aware of material non-public information with respect to future events such as planned recapitalisations or M&A activity, 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 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.

Peer average includes National Australia Bank Limited (VR: a+), Commonwealth Bank of Australia (a+), Westpac Banking Corporation (a+). The financial years of ANZ, National Australia Bank Limited and Westpac Banking Corporation end on 30 September. The financial year of Commonwealth Bank of Australia ends on 30-June. Latest average uses 1HFY23 data for Commonwealth Bank of Australia.

Summary Financials and Key Ratios

	30 Sep 22		30 Sep 21	30 Sep 20	30 Sep 19	30 Sep 18
	Year end	Year end	Year end	Year end	Year end	Year end
	(USDm)	(AUDm)	(AUDm)	(AUDm)	(AUDm)	(AUDm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement						
Net interest and dividend income	9,671	14,874.0	14,161.0	14,049.0	14,339.0	14,514.0
Net fees and commissions	1,282	1,972.0	2,143.0	2,325.0	2,577.0	2,710.0
Other operating income	1,518	2,335.0	1,367.0	2,085.0	1,732.0	2,252.0
Total operating income	12,472	19,181.0	17,671.0	18,459.0	18,648.0	19,476.0
Operating costs	6,228	9,579.0	9,051.0	9,306.0	9,071.0	9,401.0
Pre-impairment operating profit	6,243	9,602.0	8,620.0	9,153.0	9,577.0	10,075.0
Loan and other impairment charges	-151	-232.0	-567.0	2,738.0	794.0	688.0
Operating profit	6,394	9,834.0	9,187.0	6,415.0	8,783.0	9,387.0
Other non-operating items (net)	147	226.0	-268.0	-997.0	-206.0	-187.0
Tax	1,912	2,940.0	2,756.0	1,840.0	2,609.0	2,784.0
Net income	4,629	7,120.0	6,163.0	3,578.0	5,968.0	6,416.0
Other comprehensive income	-2,429	-3,735.0	-304.0	-111.0	1,359.0	316.0
Fitch comprehensive income	2,201	3,385.0	5,859.0	3,467.0	7,327.0	6,732.0
Summary balance sheet						
Assets						
Gross loans	439,530	675,989.0	633,764.0	622,074.0	618,767.0	608,380.0
- Of which impaired	2,842	4,371.0	5,303.0	7,018.0	6,677.0	1,676.0
Loan loss allowances	2,329	3,582.0	4,045.0	4,981.0	3,509.0	2,917.0
Net loans	437,201	672,407.0	629,719.0	617,093.0	615,258.0	605,463.0
Interbank	3,096	4,762.0	7,530.0	7,541.0	3,739.0	23,473.0
Derivatives	58,631	90,174.0	38,736.0	135,331.0	120,667.0	68,423.0
Other securities and earning assets	80,346	123,571.0	129,786.0	146,468.0	129,835.0	114,559.0
Total earning assets	579,275	890,914.0	805,771.0	906,433.0	869,499.0	811,918.0
Cash and due from banks	109,731	168,764.0	151,931.0	108,724.0	97,506.0	75,407.0
Other assets	16,938	26,051.0	21,155.0	27,129.0	14,132.0	55,857.0
Total assets	705,945	1,085,729.0	978,857.0	1,042,286.0	981,137.0	943,182.0
Liabilities						
Customer deposits	403,406	620,430.0	593,582.0	552,363.0	511,693.0	486,420.0
Interbank and other short-term funding	114,989	176,851.0	149,474.0	139,274.0	122,101.0	138,272.0
Other long-term funding	55,936	86,029.0	76,341.0	99,029.0	121,520.0	113,262.0
Trading liabilities and derivatives	57,470	88,388.0	36,035.0	134,711.0	120,951.0	69,676.0
Total funding and derivatives	631,801	971,698.0	855,432.0	925,377.0	876,265.0	807,630.0
Other liabilities	25,959	39,925.0	35,036.0	34,973.0	35,907.0	68,230.0
Preference shares and hybrid capital	5,325	8,189.0	24,713.0	20,639.0	8,171.0	7,917.0
Total equity	42,859	65,917.0	63,676.0	61,297.0	60,794.0	59,405.0
Total liabilities and equity	705,945	1,085,729.0	978,857.0	1,042,286.0	981,137.0	943,182.0
Exchange rate		USD1 = AUD1.53798	USD1 = AUD1.387732	USD1 = AUD1.406866	USD1 = AUD1.4817	USD1 = AUD1.384657

Source: Fitch Ratings, Fitch Solutions, ANZ

Summary Financials and Key Ratios

	30 Sep 22	30 Sep 21	30 Sep 20	30 Sep 19	30 Sep 18
Ratios (annualised as appropriate)					
Profitability					
Operating profit/risk-weighted assets	2.2	2.2	1.5	2.1	2.4
Net interest income/average earning assets	1.8	1.7	1.5	1.7	1.8
Non-interest expense/gross revenue	50.4	50.7	50.8	49.3	48.7
Net income/average equity	11.2	9.9	5.9	9.9	10.8
Asset quality					
Impaired loans ratio	0.7	0.8	1.1	1.1	0.3
Growth in gross loans	6.7	1.9	0.5	1.7	4.2
Loan loss allowances/impaired loans	82.0	76.3	71.0	52.6	174.1
Loan impairment charges/average gross loans	0.0	-0.1	0.4	0.1	0.1
Capitalisation					
Common equity Tier 1 ratio	12.3	12.3	11.3	11.4	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.	11.9	12.1	12.6
Tangible common equity/tangible assets	5.5	5.9	5.3	5.6	5.7
Basel leverage ratio	5.4	5.5	5.4	5.6	5.5
Net impaired loans/common equity Tier [1]	1.4	2.5	4.2	6.7	-2.8
Net impaired loans/Fitch Core Capital	n.a.	n.a.	4.0	6.3	-2.5
Funding and liquidity					
Gross loans/customer deposits	109.0	106.8	112.6	120.9	125.1
Liquidity coverage ratio	128.7	135.8	139.4	142.6	138.0
Customer deposits/total non-equity funding	69.3	70.3	68.1	67.0	65.2
Net stable funding ratio	119.1	124.2	123.8	116.4	114.6

Source: Fitch Ratings, Fitch Solutions, ANZ

Government Support

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

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

ANZ's GSR reflects its systemic importance as an Australian domestic systemically important bank, 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 the Australia's 'AAA'/Stable rating, and an historic propensity for Australian authorities to support senior creditors of banks. This was evident during the global financial crisis of 2008 through the implementation of a government guarantee for senior bonds and 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.

Driver	Count		Overall ESG Scale
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)

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

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
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)

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

How to Read This Page
ESG 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.

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.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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