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S&P Global
China Ratings

Credit Rating Report

Australia and New Zealand Bank (China) Company Limited

Issuer Credit Rating*: AAA_{spc}; Outlook: Stable

Rating Date: November 30, 2023
Date of Expiry: November 29, 2024

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* This rating is an Issuer Credit Rating (ICR). An ICR typically reflects our view of the senior unsecured credit rating of an issuer and is not specific to an individual issuance that it may issue.

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The above "Date of Expiry" refers to the validity period of this report. The rating presented in this report is effective from the rating date until the date of expiry. Where the date of expiry is left blank, the rating is valid until and unless we make any further updates.

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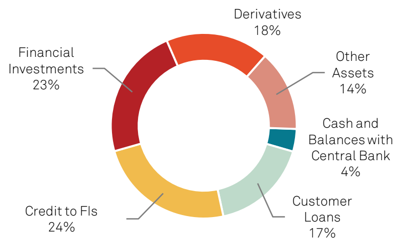
Tear Sheet

Company Name	Rating Type	Current Rating	Rating Date	Date of Expiry	Outlook/Credit Watch
Australia and New Zealand Bank (China) Company Limited	Issuer Credit Rating	AAA_{spc}	November 30, 2023	November 29, 2024	Stable

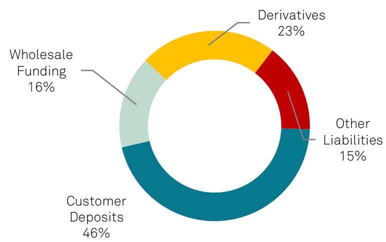
Industry Classification: Commercial Bank

Company Overview: Australia and New Zealand Bank (China) Company Limited ("ANZ (China)") is a fully-owned subsidiary of Australia and New Zealand Banking Group Ltd. ("ANZ"), one of the four major banking groups in Australia. As ANZ's locally incorporated bank in China, ANZ (China) is an integral part of its parent's international banking network. As of the end of 2022, it reported total assets of 34.7 billion RMB, gross loans of 6 billion RMB and customer deposits of 12.3 billion RMB. It is headquartered in Shanghai with seven branches and one sub-branch in China.

Asset Breakdown as of the End of 2022



Liability Breakdown as of the End of 2022



Economy and Industry Trends: We expect China's 2023 GDP growth to recover significantly from 2022. We believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality, and our baseline includes some of these dynamics.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support and economic recovery. However, banks' stand-alone credit quality is diverging. China's mega banks, joint-stock banks and foreign bank subsidiaries have maintained sufficient capitalization and stable asset quality, while some regional banks face growing capital and asset quality pressure. Compared to domestic banks, most foreign bank subsidiaries maintain lower risk appetite with good asset quality. Given their strong capital, we expect foreign bank subsidiaries to maintain stable stand-alone credit quality.

Foreign bank subsidiaries are typically fully owned and tightly controlled by their parents, sharing parents' brands, actively engaging in cross-selling activities across borders, and enjoying on-going parental support in terms of capital injection and liquidity support. Despite the banking turmoil in the US and European markets in the first half of 2023, international banking groups have generally maintained good credit quality. Strong and stable group support continue to play an important role in foreign bank subsidiaries' issuer credit quality.

Key Metrics of ANZ (China)

	2018	2019	2020	2021	2022
Total assets (bil)	35.7	38.6	37.5	39.8	34.7
Customer loans (bil)	10.9	9.7	7.4	7.5	6.0
Customer deposits (bil)	14.6	16.5	11.7	16.4	12.3
Net income (bil)	0.5	0.3	0.06	0.06	0.48
Reported regulatory capital adequacy ratio (%)	20.33	18.37	24.08	25.57	36.61
Return on average equity (%)	6.09	3.87	0.85	0.85	6.27
Non-performing loan ratio (%)	0.29	-	-	-	-
Reserve coverage ratio (%)	854.02	N/A	N/A	N/A	N/A
Customer deposits/total funding (%)	62.67	66.11	62.29	62.49	74.47

Note: N/A. -Not applicable.
Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

Rating Snapshot

Anchor	**bbb+**
Business Position	-2
Capital and Earnings	+2
Risk Position	+2
Funding and Liquidity	0
Stand-alone Credit Profile	**a_{spc}**
Group Support	+5
Issuer Credit Rating	**AAA_{spc}**
Outlook/Credit Watch	**Stable**

Business Position: It has a very small commercial banking operation in China with a limited client base mostly composed of Chinese corporates with business in APAC, multinationals, and financial institutions. It has strong business synergy with its parent group.

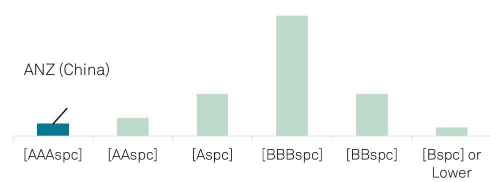
Capital and Earnings: It has a very strong capitalization base, with capital adequacy ratios much higher than the industry average. Its capital consumption dropped as its loan book got smaller in recent years. Profitability is volatile but has no negative impact on capital.

Risk Position: It takes a very prudent approach to risk management and has conservative risk appetite. Its risk management and policy are closely aligned with its group. Its asset quality performance is among the best in China.

Funding and Liquidity: Its corporate deposit size is small and concentrated. Its deposit volatility is offset by its prudent liquidity management and highly liquid asset profile. We expect it to maintain stable funding and adequate liquidity.

External Support: ANZ has extremely strong credit quality. Among the 41 foreign institutions with China banking subsidiaries, ANZ is among the banks with the highest credit ratings assigned by S&P Global Ratings. ANZ (China) is highly likely to receive extraordinary support from its parent in times of need considering the fact that it is a fully owned subsidiary and an integral part of ANZ's international banking operations.

ANZ (China)'s Relative Issuer Credit Rating Position Among Financial Institutions In China



Note: This chart serves as a hypothetical example of S&P Global (China) Ratings' rating distribution of financial institutions. Ratings below [AAA_{spc}] can be adjusted by "+" and "-".

Peer Group Comparison:

	2021			2022		
	ANZ (China)	Commercial Bank Average	Foreign Bank Subsidiary Average	ANZ (China)	Commercial Bank Average	Foreign Bank Subsidiary Average
Total assets (bil)	39.8	158.1	76.1	34.7	174.4	76.5
Net income (bil)	0.1	1.2	0.5	0.5	1.3	0.5
Reported regulatory capital adequacy ratio (%)	25.6	15.1	18.0	36.6	15.2	19.3
Return on average assets (%)	0.2	0.8	0.6	1.3	0.8	0.6
Non-performing loans ratio (%)	-	1.7	0.6	-	1.6	0.7
Reserve coverage ratio (%)	N/A	196.9	362.8	N/A	205.9	302.0

Note: N/A. -Not applicable.
Sources: ANZ (China), NAFR, Wind, collected and adjusted by S&P Global (China) Ratings.

Rating Summary

Company Name	Rating Type	Current Rating	Rating Date	Outlook/CreditWatch
Australia and New Zealand Bank (China) Company Limited	Issuer Credit Rating	AAA$_{spc}$	November 30, 2023	Stable

Stand-alone Credit Profile (SACP)	a$_{spc}$
Anchor	bbb+
Business Position	-2
Capital & Earnings	+2
Risk Position	+2
Funding & Liquidity	0
Holistic Adjustment	0

+

External Support	+5
Group Support	+5

Issuer Credit Rating (ICR)
AAA$_{spc}$ / Stable

Credit Highlights

Strengths	Weaknesses
— Parent has extremely high credit quality, and it is highly likely to receive timely support from its parent if needed.	— Very small business presence and high business concentration in China, facing challenges in sustaining growth momentum.
— Very strong capitalization.	— Volatile revenue and profitability.
— Very conservative risk appetite and effective risk management.	

Rating Outlook

The stable outlook reflects our expectation that ANZ (China)'s business operations and financial strength will remain stable over the next two years or beyond. We also expect its importance to its parent to remain unchanged.

Downside Scenario: We may consider lowering its ICR if we believe that the bank's importance to its parent declines, or its parent's issuer credit quality deteriorates. We may consider lowering its SACP if the bank significantly raises its risk appetite or reduces its capitalization level.

Upside Scenario: We may consider raising its SACP if its market share in China increases significantly, and it improves its revenue stability and profitability without significantly changing its capitalization position and risk appetite.

Related Methodologies, Models & Research

Methodology Applied:

- S&P Global (China) Ratings Financial Institutions Methodology.
- S&P Global (China) Ratings General Considerations on Rating Modifiers and Relative Ranking.

Model Applied: None.

Anchor

Macro-Economic and Industry Trends

Considering the economic risk and industry risk faced by China's commercial banking industry, we typically apply an anchor of "bbb+" to commercial banks in China.

We expect China's 2023 GDP growth to recover significantly from 2022. We believe new regulations and policies are aimed at common prosperity and greater self-reliance, marking a shift in China's growth strategy. Taking this long-term strategy into consideration, we have increasingly factored in lower emphasis on the quantity of growth in favor of factors such as deleveraging and lowering inequality, and our baseline includes some of these dynamics.

We expect the overall credit outlook for commercial banks in China to remain stable because of ongoing government support and economic recovery. While capital and asset quality performance indicators have remained stable, we expect pressure to continue on credit cost and profitability. State-owned mega banks are expected to maintain stable capitalization and resilient profitability. Regional banks on the other hand face more pressure on asset quality and capital.

Foreign bank subsidiaries in the Chinese banking sector are small in terms of market share and scale. They are typically fully owned and tightly controlled by their parents, sharing parents' brand, actively engaging in cross-selling activities, and enjoying on-going support in terms of capital injection and liquidity support. We expect strong support from the parent banks should the subsidiaries come under pressure. International banking groups generally maintain good credit quality, and strong and stable group support continue to play an important role in foreign bank subsidiaries' overall credit quality.

While Chinese banks have enjoyed rapid growth in the past decade, most foreign bank subsidiaries have seen modest loan book growth. There are 41 foreign bank subsidiaries in total and they only have a market share of less than 1% in the Chinese commercial banking industry. The mainstream Chinese banks have clear scale and pricing advantages in their loan business. Furthermore, China's mega banks are becoming increasingly adept at meeting the cross-border financing needs of domestic corporate clients. The fierce industry competition has led to growth challenges for foreign bank subsidiaries.

In recent years, many foreign bank subsidiaries' loan books shrank as they adhered to their low-risk growth strategies and the industry competition intensified. While they are smaller than domestic banks in terms of business scale, foreign bank subsidiaries have unique advantages in cross-border and global banking services and play an indispensable role in China's commercial banking industry.

Foreign bank subsidiaries have the highest capital adequacy ratios in China. As of the end of 2022, their average capital adequacy ratio was 19.29%, 4.1 percentage points higher than the industry average. Dwindling lending business and reduced capital consumption led to an increase in capital adequacy for many foreign bank subsidiaries in recent years. For 2023, we expect their capital adequacy to remain at a high level.

The present downward trend in market interest rates results in a significant drop in foreign bank subsidiaries' net interest margins ("NIMs") and profitability. However, thanks to their good asset quality, their credit cost remains controllable, with profit quality still at a good and solid level.

Most foreign bank subsidiaries maintain lower risk appetite compared to their Chinese peers. The slowdown in Chinese economic growth have not had a material impact on their asset quality performance. Furthermore, unlike their Chinese peers, most foreign bank subsidiaries have limited exposure to risky real estate assets or high-risk LGFVs.

International banking groups have maintained good credit quality in recent years. Stable and strong group support plays an important role in ensuring the very good issuer credit quality of these China subsidiaries. The first half of 2023 saw banking turmoil in the US and Europe. Except for SPD Silicon Valley Bank which suffered direct impact, most foreign bank subsidiaries operating in China are not negatively affected by the incidents of Silicon Valley Bank and Credit Suisse.

We usually expect foreign bank subsidiaries to receive parental support in times of stress. Foreign bank subsidiaries are typically fully owned and tightly controlled by their parents, sharing parents' brands and receiving effective parental support in terms of cross-selling activities, capital injection and liquidity support. Although most of these subsidiaries' contribution to their parents' income and assets is limited, considering China's very important position in the world economy, we believe that the commitment of international banks in the Chinese market is long-term. In addition, the China subsidiaries also recommend overseas business of Chinese customers to their parent banks, and they may have greater importance to parents than what is reflected on their balance sheets.

Considering the economic risk and industry risk faced by China's commercial banking industry, we apply an anchor of bbb+ for ANZ (China).

Stand-alone Credit Profile

Set up in 2010, ANZ (China) is the fully owned subsidiary of ANZ, one of the four major banking groups in Australia. ANZ (China) is integral to its parent's international banking network. As of the end of 2022, it reported total assets of 34.7 billion RMB, gross loans of 6 billion RMB and customer deposits of 12.3 billion RMB.

The bank set up a representative office in China in 1986 and opened its first domestic branch in 1997. In 2010, ANZ (China) was fully incorporated. The bank is the only Australian banking subsidiary in China. It has seven branches and one sub-branch in China, located in Shanghai, Beijing, Guangzhou, Chongqing, Hangzhou, Chengdu and Qingdao.

The bank is an integral part of the international banking network of ANZ.

Business Position

We apply a two-notch downward adjustment to its business position to reflect its very small business franchise and unstable revenue in China.

ANZ (China) has a clearly defined strategy. It withdrew from retail banking in 2017 and has focused on institutional banking ever since. It offers three product lines in China, including transaction banking, financial markets, and corporate finance. It targets a client base composed mostly of Chinese corporates with APAC business requirements, financial institutions and multinationals, and is dedicated to serving them in the global network of ANZ.

ANZ (China) positions itself as a specialist bank with niche strengths in the APAC region. Its priority industries include resources, energy and infrastructure industries, and agricultural business.

As the only locally incorporated Australian bank, it is a market leader in AUD and NZD clearing. It also has a proprietary gold license and offers gold products. It was licensed as a market maker to tap into USD clearing in March 2023 and is seeking to obtain more licenses to expand the scope of services. In recent years, it has also worked on embedding ESG elements into its existing strategy, focusing on opportunities in energy transformation, electrification of transportation, and other ESG focused sectors.

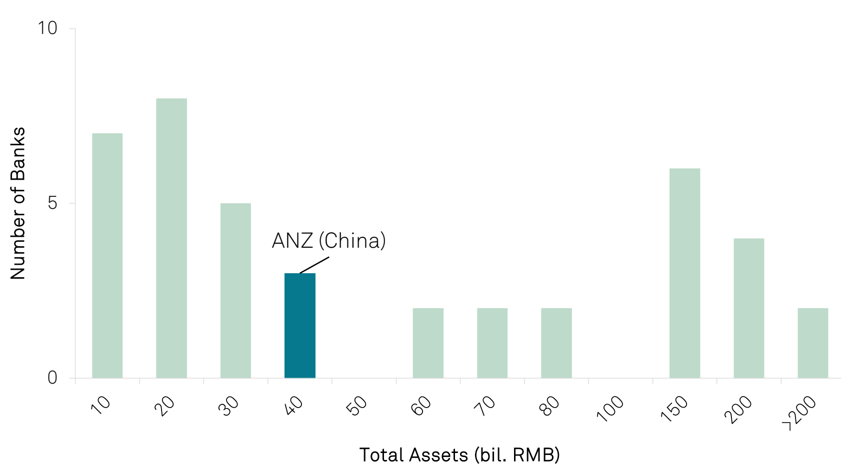
Competition among banks in China for high credit quality customers has intensified amid accommodative monetary policies. Superior customers enjoy ample liquidity, restraining their effective borrowing demand. Moreover, the bank follows prudent operational strategies where loan expansion is not considered the top priority, resulting in a reduction in its loan book. As of the end of 2022, gross customer loans fell by 20% YoY to 6 billion RMB. In 2023, loan scale improves marginally from 2022, but still smaller compared to 2021.

Like other foreign bank subsidiaries in China, ANZ (China) has a very small market share in China. As of the end of 2022, it had a market share of less than 0.01% for both loans and deposits in China. Its business is concentrated in Shanghai and Beijing. About 71% of its loans were originated in Shanghai and 18% in Beijing.

Chart 1

The bank has a small business franchise in China

Peer Comparison: Distribution of Total Assets of Major Foreign Bank Subsidiaries as of End of 2022



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Table 1

ANZ (China) -- Market Share					
(%)	2018	2019	2020	2021	2022
Total assets / total assets of China's commercial banking industry	0.017	0.016	0.014	0.014	0.011
Gross customer loans / total loans of China's commercial banking industry	0.010	0.007	0.005	0.005	0.003
Customer deposits / total deposits of China's commercial banking industry	0.008	0.008	0.005	0.007	0.005

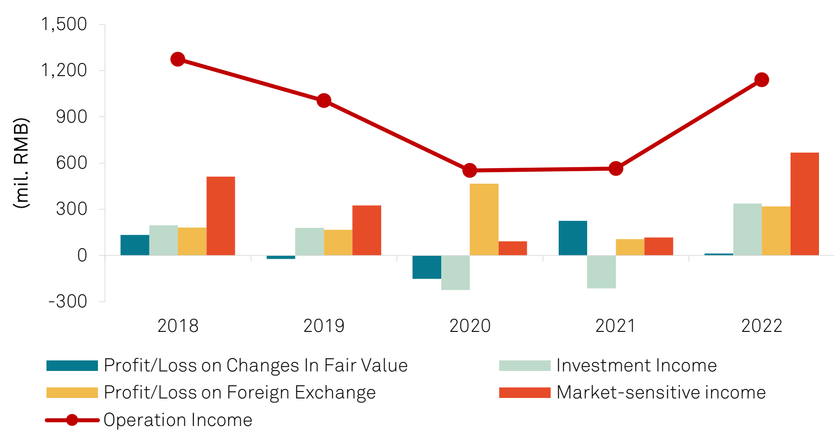
Sources: ANZ (China), NAFR, PBOC, collected and adjusted by S&P Global (China) Ratings

Due to volatility in net interest income, foreign exchange and investment income, ANZ (China)'s income fluctuates significantly. From 2020 to 2022, income sensitive to market risk (including investment income, profit/loss on changes in fair value, and profit/loss on foreign exchange) accounted for 31.92% of its operating income on average. In 2022, corporate finance business generated stable revenue, while income from transaction banking and capital markets businesses surged. This boosted operating income to 1.14 billion RMB, doubling the amount in 2021. In 2023, foreign exchange and investment income is weaker than that in 2022, and we expect full-year operating income to be lower than the level in 2022 but exceed that in 2021.

Chart 2

Capital market fluctuation materially affects its profit

ANZ (China): Market-sensitive Income and Operating Income



Note: Market-sensitive income = investment income + profit/loss on changes in fair value + profit/loss on foreign exchange.

Source: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

Capital and Earnings

We apply a two-notch uplift to the bank's capital and earnings to reflect its very strong capitalization.

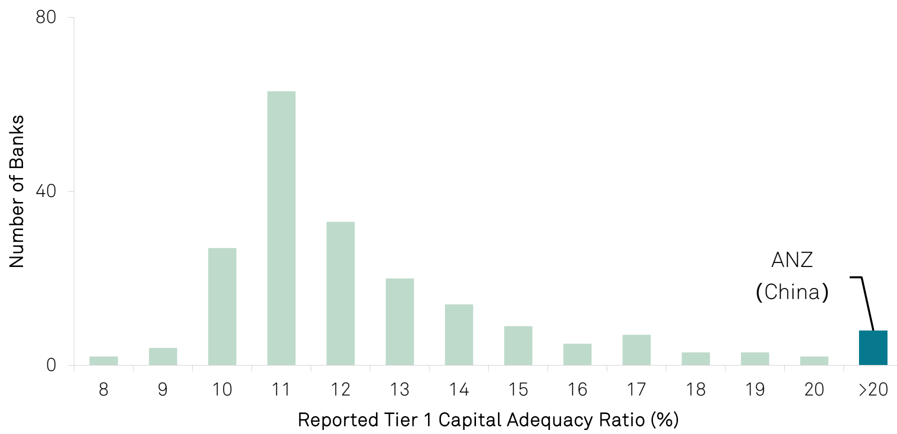
Its profitability level has been volatile. Nevertheless, we don't expect its earnings to have a significant impact on its capital.

ANZ (China)'s capitalization is much stronger than the industry average. Its reported regulatory tier 1 capital adequacy ratio was 36.2% as of the end of 2022, 11.01 percentage points higher than that at the beginning of the year. This was mainly led by decreased risk-weighted assets amid the decline in loans and interbank lending, coupled with increased net tier 1 capital driven by slightly improved undistributed profit. The bank has seen growing lending business scale and credit to nonbank financial institutions since 2023, leading to a recovery in risk-weighted assets and mild reduction in tier 1 capital adequacy ratio. Nonetheless, we expect its tier 1 capital adequacy ratio to remain above 30% in the next 12 months.

Chart 3

The bank has very strong capitalization

Industry Comparison: Reported Regulatory Tier 1 Capital Adequacy Ratio of 200 Major Banks in China as of End of 2022



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Table 2

ANZ (China) -- Capital Adequacy Forecast by S&P Global (China) Ratings

(Bil. RMB)	2023F		2024F		Base case assumptions and conclusions
	Amount	YoY Change	Amount	YoY Change	
Risk-weighted assets	24	9%	25	6%	Our major base case assumptions include: 1) The bank's loan book size and risk-weighted assets increase by around 6% in 2024. 2) We expect its return on average equity ("ROAE") to be around 4.0% in 2024. 3) Dividend payout ratio remains in the range of 70%-90% according to parent's financial policy. Considering the high dividend payout ratio, profitability doesn't have meaningful impact on its capital adequacy. Its capital adequacy is primarily driven by changes to the size of its risk-weighted assets. Given its current capital position and business development pace, we expect its tier 1 capital adequacy ratio to stay above 30% in 2024, among the highest in China's banking industry.
Net tier 1 capital	8	0%	8	0%	
Tier 1 capital adequacy ratio forecast	About 33%		>30%		

Note: F - forecast.

Sources: ANZ (China), S&P Global (China) Ratings.

We believe ANZ is committed to maintaining adequate capital for its China subsidiary. ANZ has a track record of injecting capital into ANZ (China) when necessary. ANZ (China)'s initial registered capital was 2.5 billion RMB when incorporated in 2010. The parent injected another 2 billion RMB and 1.725 billion RMB in 2012 and 2015 respectively to support its business growth. Nevertheless, given ANZ (China)'s excess capital buffer and cautious growth pace, we believe a capital injection is unlikely in the next 24 months.

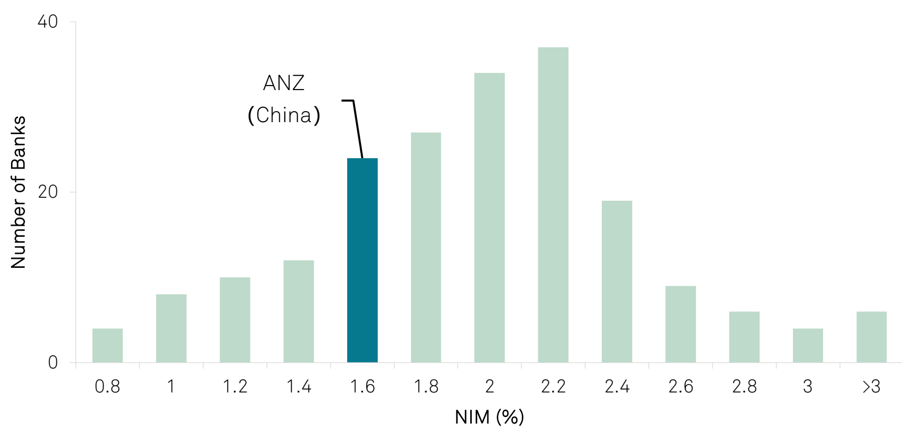
The interest spread of ANZ (China) is below the industry average due to low credit risk premium of its high credit quality assets. In 2022, it had a NIM of 1.44%, 47 basis points lower than the industry average.

With an asset structure different from its Chinese peers, ANZ (China) has seen a NIM trend deviating from its Chinese peers in recent years. In 2022, its NIM picked up by 11 basis points YoY, in contrast to a decrease of 17 basis points of the industry. The bank's improving NIM was attributable to more nonbank financial institutions loans denominated in USD and increased investment in U.S. Treasury bonds. It has been enjoying the benefit in the U.S. rate hike thanks to the high proportion of USD-denominated assets in its total assets, which offsets the negative impact of multiple LPR cuts on its RMB-denominated business. On the liability side, it enjoyed significant decrease in funding cost which is caused by several rounds of RMB deposit rate cuts. In addition, the bank's USD deposits are comprised mainly of low-interest-bearing demand deposits, thus widening the NIM for its USD-related business further.

Chart 4

The bank's NIM is lower than the industry average

Industry Comparison: Distribution of NIM of 200 Major Banks in China in 2022



Sources: Public information of banks, collected and adjusted by S&P Global (China) Ratings.

Without non-performing loans ("NPL") on its book, ANZ (China)'s provisioning cost is typically determined by two factors: its provisioning strategy and changes to the size of its loan book. In 2021, the regulator's minimum reserve-to-loan requirements for the bank were lowered from 2.5% to 1.5%. In 2022, the decrease in its loan book has seen reserves released, leading to a positive contribution to profitability. This saw a 30 million RMB reversal in credit impairment loss, representing 5% of total profit. In 2023, the bank booked credit impairment loss due to rapidly expanding loan scale.

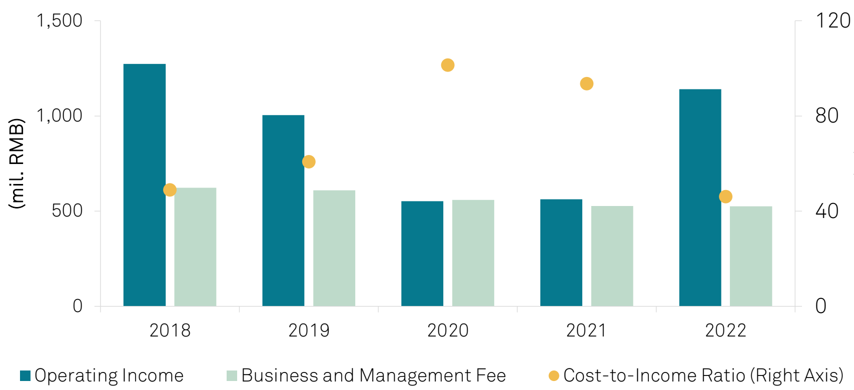
Considering the bank's good asset quality, we expect future credit cost to be controllable.

The bank has maintained stable operating cost for years, with average business and management fee standing at 537 million RMB from 2020 to 2022. For 2022 alone, business and management fee was 526 million RMB, down slightly from the previous year. Nonetheless, the bank's volatile income leads to swinging cost-to-income ratio, which recorded 101%, 93% and 46% from 2020 to 2022, respectively.

Chart 5

Its operating income is highly volatile, while operating cost remains stable

ANZ (China): Operating Income and Cost, and Cost-to-Income Ratio



Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

The bank's profitability shows great volatility. From 2020 to 2022, it reported ROAE of 0.85%, 0.85% and 6.27%, respectively. In 2022, its profitability significantly improved, mainly because of better NIM, substantially enhanced investment returns on non-foreign exchange derivatives, and increased profit on foreign exchange. In 2023, as its operating income grows at a slower pace and loan scale expansion brings more credit impairment loss, we expect its ROAE to decrease from that in 2022 but still stay above the level in 2021.

Risk Position

Its risk management and risk policy are well aligned with its group.

The bank has a conservative risk appetite and has maintained very good asset quality.

Therefore, we apply a two-notch upward adjustment to its risk position.

ANZ (China)'s risk management framework and risk policy is well aligned with its parent. ANZ has conservative risk appetite and a comprehensive, well-developed risk management and governance framework that spans the group's activities. This underpins its China subsidiary's sound risk governance and management.

ANZ (China) has very prudent underwriting standards, resulting in very good asset quality metrics. In recent years, it has tightened its target market segments and withdrew from some customers with potential risk concerns. It also follows prudent credit supply strategies, which ensures very good loan quality. As of the end of 2022, it had no non-performing loans and no overdue loans but identified certain volume of special mention loans ("SML") according to its stringent loan classification. As of the end of 2022, SMLs accounted for 1.93% of its gross loans, down by 0.58 percentage points YoY. Given its very strict loan classification rules, we expect risks around its SMLs in terms of credit loss and migration to remain controllable. 2023 to date, its SML exposure has declined considerably, with overall asset quality remaining very healthy.

ANZ (China) has high single name concentration due to its limited customer base. As of the end of 2022, the loans to its largest customer accounted for 7% of net tier 1 capital. We believe such high concentration is offset by the very good credit quality of its customers.

ANZ (China)'s investment portfolio has very high credit quality. As of the end of 2022, its investment portfolio accounted for 23% of its total assets, among which 1% were Chinese Treasury bonds, 80% policy bank bonds and 19% the U.S. Treasury bonds.

ANZ (China) has a selective financial institution client base in its interbank operations, which typically includes Chinese mega banks, joint-stock banks and their financial leasing subsidiaries, and auto finance companies owned by large automobile groups.

ANZ (China) has sound market risk management. It has well-defined risk appetite for trading and banking book activities that generate market risk. It effectively monitors risk indicators and conducts stress testing to maintain effective risk oversight and risk resilience. It has an effective market risk management framework to ensure its business remains aligned to its defined risk appetite and strategy.

ANZ (China)'s profit is sensitive to capital market fluctuations due to its relatively large market risk exposure. The bank was able to maintain overall positive market-sensitive income and did not experience losses in recent years thanks to its prudent market risk management.

ANZ (China) maintains sound and stable operational risk management. In 2023, its parent closed its operational service center in Chengdu and the necessary operational service capacity has been smoothly transferred to ANZ (China)'s Shanghai and Beijing operations.

Funding and Liquidity

Small foreign bank subsidiaries may struggle to maintain stable deposit bases in China given their limited physical presence and the intense market competition. ANZ (China)'s deposit base is highly concentrated among its multinational customers. Its top 10 deposit customers accounted for about 51% of total deposits as of the end of 2022. Such high deposit concentration might lead to high volatility in terms of deposit size. In 2021, its deposits grew by 40% YoY. Its deposit size was 12.3 billion RMB as of the end of 2022, down by 25% YoY, and continues a mild decline in 2023.

Despite the volatile deposit size, we expect ANZ (China) to maintain stable funding. As of the end of 2022, 74% of its total funding was customer deposits, and 26% wholesale funding. The parent bank also provides strong liquidity support. As of the end of 2022, all of its FVTPL liabilities and over 99% of its interbank borrowings came its parent. In addition, the bank's deposit base should provide sufficient support to its lending business given the decreasing loan size. As of the end of 2022, its loan-to-deposit ratio was only 49%.

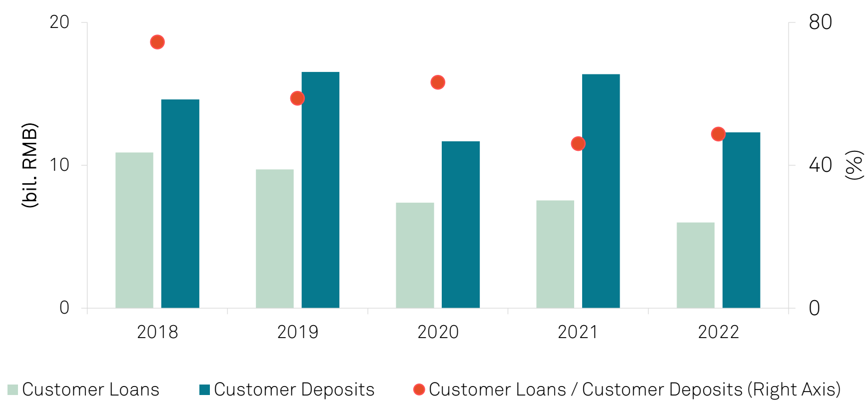
The bank's high deposit concentration is compensated by its sizeable liquid assets and prudent liquidity management. We expect it to maintain adequate liquidity going forward.

Therefore, there is no notching adjustment for funding and liquidity.

Chart 6

Its customer deposit size fluctuates but remains adequate to support its lending business

ANZ (China): Customer Deposit and Loan, and Loan-to-Deposit Ratio



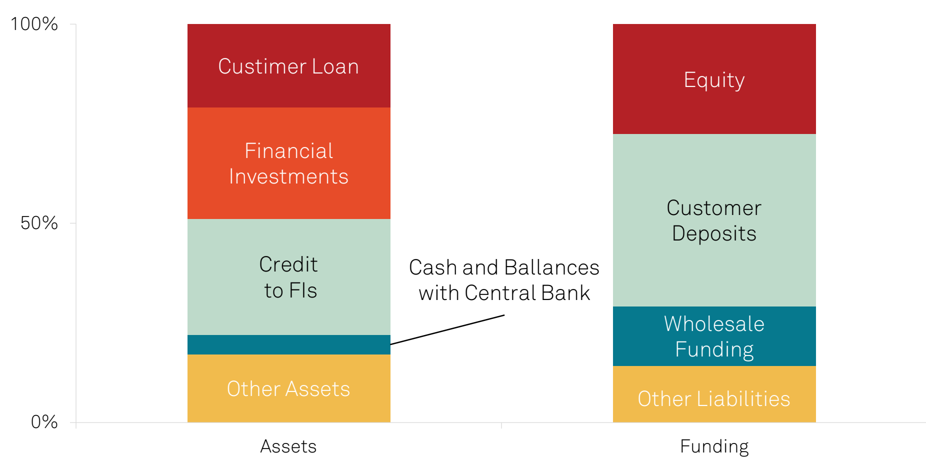
Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

The bank doesn't seek high profit through maturity mismatch between its assets and liabilities. Its assets have a very good liquidity profile. As of year-end 2022, its net loans accounted for 17% of total assets; cash and deposits to the central bank 4%; credit to other financial institutions 24%, and its investment portfolio of bonds 23%. Highly liquid assets (including cash, deposits to the central bank, treasury bonds, policy bank bonds and high credit-quality foreign bonds) was about 2.6x of its wholesale funding (excluding borrowing from its parent). In addition, it has a highly liquid loan portfolio. About 69% of its loans had a remaining term of less than 12 months as of the end of 2022.

Chart 7

The bank's assets have a very good liquidity profile

ANZ (China): Breakdown of Asset and Funding Structure as of End of 2022



Note: Derivatives are excluded from assets and funding. Other assets include precious metals, right-of-use assets, gold lending proceeds and refundable deposits. Wholesale funding does not contain FVTPL liabilities.

Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

The bank is assigned an SACP of "a_{spc}", two notches higher than the bank anchor of "bbb+". This SACP reflects its very strong capital base and very good asset quality, as well as its very small business size and unstable revenue.

In our view, the liquidity management of ANZ (China) is very prudent, and its liquidity risk is controllable. Its liquidity policy adheres to its group's policy and also complies with regulatory requirements in China. It monitors liquidity metrics in both baseline and stressed scenarios. Funding support from its parent also provides reliable secondary liquidity sources. The bank maintains a liquidity crisis contingency plan in accordance with group requirements. As of the end of 2022, its liquidity ratio stood at 90.46%, and its high-quality liquidity asset adequacy ratio was 564.26%, far above the minimum regulatory requirements of 25% and 100%, respectively. A year-on-year surge of 404 percentage points in its high-quality liquidity asset adequacy ratio was driven by increased investment in treasury bonds and policy bank bonds and reduced interbank borrowing.

Issuer Credit Rating

External Support

S&P Global Ratings has assigned a stand-alone credit profile of "a" and an issuer credit rating of "AA-" to ANZ, the outlook is stable. Based on the broad relationship observed between the credit opinions of S&P Global Ratings and S&P Global (China) Ratings, we view the issuer credit quality of ANZ as extremely strong, equivalent to the issuer credit rating of "AAA_{spc}" on our national scale. Among the 41 foreign banks with Chinese subsidiaries, ANZ is one of those with the highest credit ratings assigned by S&P Global Ratings.

ANZ has extremely strong credit quality. Among the 41 foreign institutions with Chinese banking subsidiaries, ANZ is one of those with the highest credit ratings assigned by S&P Global Ratings.

ANZ (China), as its fully owned subsidiary, is closely aligned with its parent in terms of operations and risk management. But it is still small in terms of assets and profit contribution within the group. We believe the bank has high importance to its parent.

Therefore, we apply a group support notching of five notches on its SACP of "a_{spc}" and assign an ICR of "AAA_{spc}" to ANZ (China).

Chart 8

ANZ has highest rating by S&P Global Ratings among parents of foreign bank subsidiaries

Peer Comparison: Issuer Credit Rating Distribution of Parents of Foreign Bank Subsidiaries by S&P Global Ratings

Note: There are 41 foreign bank subsidiaries in China. Among these banks, 36 banks' parents are rated by S&P Global Ratings. The ratings are as of November 30, 2023.
Sources: S&P Global Ratings, collected and adjusted by S&P Global (China) Ratings.

Table 3

ANZ: Credit Highlights by S&P Global Ratings	
Key strengths	**Key risks**
Strong market position in the Australian and New Zealand retail and commercial banking sectors.	Dependence on domestic and offshore wholesale borrowing.

ANZ: Credit Highlights by S&P Global Ratings	
Very strong capitalization.	Exposed to risks from high household debt and house prices.
Highly likely to receive timely financial support from the Australian government, if needed.	

Sources: S&P Global Ratings, collected by S&P Global (China) Ratings.

ANZ (China) plays a strategically critical role in its parent's global banking network. Considering China's status as the second largest economy in the world and the largest trade partner of Australia, ANZ (China) is committed to assisting its parent in acquiring businesses relating to trade and capital in China. We believe ANZ (China) has high importance to its parent for the following reasons: (1) it is wholly owned by its parent; (2) it shares the group's logo and brand; (3) it receives effective corporate governance, particularly risk governance from its parent, with its board members and supervisors appointed by the parent; (4) it shares its group's corporate customer base and is an important part of the parent bank's international banking network; (5) it receives on-going support from its parent in terms of both management and technology and is closely aligned with ANZ in terms of operations, infrastructure and risk management practices; (6) its group provides it with reliable ongoing funding support and is committed to maintaining its capitalization at an adequate level.

We believe ANZ will remain committed to China and the Chinese market. ANZ has been operating in China for over three decades. It entered the Chinese market in 1986. In 2010, it converted its branches in China into a locally incorporated bank.

ANZ's strategy in China has become clearer in recent years, and ANZ (China) continues to act as its core operation in China with a focus on institutional banking. In 2017, ANZ made a decision to withdraw from wealth management and retail banking in Asia and focus on institutional banking in this region. In this context, Chongqing Liangping ANZ Rural Bank Company Limited received local regulatory approval on dissolution in June 2023 and all liquidation work is currently underway.

We believe ANZ (China) falls short of being critically important to its parent's operations because of its limited contribution to ANZ's assets and profitability. ANZ (China)'s total assets account for less than 1% of those of its parent. Nevertheless, that number may not fully reflect the importance of the locally incorporated bank, because a substantial part of the revenue and profits which ANZ (China) helps generate through cross-selling activities are not booked in its own financial statements.

Because of its parent's ability and willingness to provide support, we assign an Issuer Credit Rating of "AAA_{spc}" to ANZ (China), five notches higher than its stand-alone credit profile of "a_{spc}".

Appendix 1: Key Financial Data

ANZ (China) -- Key Financial Data

	2018	2019	2020	2021	2022
Business Position					
Total assets (bil)	35.74	38.64	37.48	39.83	34.70
Gross customer loans (bil)	10.89	9.72	7.39	7.55	6.00
Customer deposits (bil)	14.60	16.53	11.69	16.37	12.31
Total equity (bil)	7.75	7.60	7.36	7.39	7.83
Operating income (bil)	1.27	1.01	0.55	0.56	1.14
Net income (bil)	0.47	0.30	0.06	0.06	0.48
Total assets / total assets of China's commercial banking industry (%)	0.017	0.016	0.014	0.014	0.011
Customer loans / total loans of China's commercial banking industry (%)	0.010	0.007	0.005	0.005	0.003
Customer deposits / total deposits of China's commercial banking industry (%)	0.008	0.008	0.005	0.007	0.005
Capital and Earnings					
Reported regulatory total capital adequacy ratio (%)	20.33	18.37	24.08	25.57	36.61
Reported regulatory tier 1 capital adequacy ratio (%)	19.72	17.81	23.50	25.19	36.20
NIM adjusted by S&P Global (China) Ratings (%)	2.06	1.84	1.39	1.29	1.44
Cost-to-income ratio (%)	48.86	60.66	101.36	93.49	46.10
Asset provisioning/pre-provision operating profits (%)	3.84	(3.65)	2,146.98	(191.73)	(5.30)
Loan provisioning/average gross customer loans (%)	0.35	(0.12)	(0.69)	(0.96)	(0.34)
Return on average assets (%)	1.19	0.80	0.17	0.16	1.28
Return on average equity (%)	6.09	3.87	0.85	0.85	6.27
Risk Position					
Non-performing loan ratio (%)	0.29	-	-	-	-
(Non-performing loans + special mention loans)/gross customer loans (%)	1.94	1.12	0.53	2.51	1.93
Overdue loan ratio (%)	0.29	-	-	-	-
Loan loss reserves/gross customer loans (%)	2.50	2.50	2.50	1.50	1.50
Reserve coverage ratio (%)	854.02	Not applicable	Not applicable	Not applicable	Not applicable
Loan loss reserves/ (non-performing loans + special mention loans) (%)	128.59	222.91	468.38	59.74	77.77
Net write-offs/average gross customer loans (%)	-	0.16	(0.01)	(0.002)	-
Funding and Liquidity					
Customer loans/customer deposits (%)	74.55	58.80	63.27	46.11	48.74
Customer deposits/total funding (%)	62.67	66.11	62.29	62.49	74.47
Wholesale funding /total funding (%)	37.33	33.89	37.71	37.51	25.53
High-quality liquidity asset adequacy ratio (%)	295.43	258.84	420.40	159.81	564.26

Note 1: In our view, ANZ (China) has a clear business model and sound financial management. Therefore, we haven't conducted any material adjustments to its financial data. ANZ (China)'s annual financial reports have been audited by KPMG, and unqualified opinions have been issued on its financial statements.

Note 2: NIM adjusted by S&P Global (China) Ratings = net interest income/ [(total interest-bearing assets at the beginning of the year + total interest-bearing assets at the end of the year)/2]. Return on average assets =net income/ [(total assets at the beginning of the year + total assets at the end of the year)/2]. Return on average equity =net income/ [(total equity at the beginning of the year + total equity at the end of the year)/2].

Sources: ANZ (China), collected and adjusted by S&P Global (China) Ratings.

Appendix 2: Rating History

Issuer Credit Ratings of ANZ (China) by S&P Global (China) Ratings

Issuer Credit Ratings	Outlook	Rating Date	Analysts	Related Reports
AAA_{spc}	Stable	2021-11-30	Yifu Wang, Xiaochen Luan, Xuefei Zou	Credit Rating Report: Australia and New Zealand Bank (China) Company Limited, November 30, 2021
AAA_{spc}	Stable	2022-11-30	Xiaochen Luan, Jiancheng Yang	Credit Rating Report: Australia and New Zealand Bank (China) Company Limited, November 30, 2022
AAA_{spc}	Stable	2023-11-30	Xiaochen Luan, Qiwei Chen, Jiancheng Yang	Current Report

Note: These ratings are conducted based on S&P Global (China) Ratings Financial Institutions Methodology, and no quantitative model is used.